



INTRODUCTION

The purpose of this section is to provide the reader with a summary of the 2009 biennium budget as adopted by the 60th Legislature. It provides the reader with a general overview of the budget from both sides of the equation, revenue and appropriations.

The first chapter provides a summary of the general fund balance as projected through the 2009 biennium (\$183.8 million), using revenue estimates and appropriations adopted by the legislature.

The second chapter, "Revenue Summary", provides a summary of the general fund revenue estimates as adopted by the Revenue and Transportation Interim Committee (\$3.673 billion), plus the revenue impacts of legislation passed in the 2007 sessions (\$14.7 million), to arrive at the total general fund revenue projection for the 2009 biennium (\$3.688 billion). It also includes a summary of selected non-general fund revenue estimates. It further provides a summary of tax policy and initiatives adopted by the 2007 Legislature, including a bill-by-bill summary of major tax policy and major revenue bills adopted in the 2007 sessions. This chapter provides highlights of the information provided in Volume 2 of this report, "Revenue Estimates".

The third and final chapter in this section, "Appropriations Summary", summarizes the major legislative appropriations for operating state government in HB 2 (general appropriations act) and HB 13 (employee pay plan), as well as HB 63 and HB 131, which increased employer contributions to certain retirement systems. It provides major highlights of appropriations plus a summary of appropriations by program area and fund type. This chapter provides data in summarized form of the information provided in detail for budgets of each state agency in Volumes 3 and 4 of the 2009 Biennium Legislative Fiscal Report, "Agency Budgets".



GENERAL FUND SUMMARY – FUND BALANCE

INTRODUCTION

The general fund is the primary account that funds a majority of the general operations of state government. General fund expenditures represent about 41.1 percent of all state expenditures in the general, state special, federal special, and selected proprietary fund types authorized in HB2 (general appropriations), HB13 (pay plan), and HB63 and HB131 (retirement). Total revenues to the account for the 2009 biennium are estimated to be slightly more than \$3.681 billion, which is an increase of \$204.6 million (5.9 percent) from the 2007 biennium. Included in this increase is the phased-in impacts of SB407 (individual income tax reduction) adopted by the 58th Legislature and all other tax policy/revenue legislation enacted by the 60th Legislature. There were a total of 33 bills approved that impacted general fund revenue for the fiscal period 2007 through 2009. Total impact of this legislation is estimated to increase revenues \$14.7 million over the 3-year period.

Total disbursements from the account for the 2009 biennium are estimated to be \$3.952 billion, which is an increase of \$653.1 million (19.8 percent) from the 2007 biennium. This amount may understate the true increase, since \$83.3 million in supplemental appropriations were approved for the 2007 biennium, while no supplemental appropriations were budgeted for the 2009 biennium. There were a total of 44 bills approved that impacted general fund disbursements for the fiscal period 2007 through 2009.

Balancing general fund appropriations against anticipated revenues is a major challenge of each legislature and requires a significant coordination between the taxation and appropriation committees. Based on legislative revenue estimates, there are sufficient revenues to support the total general fund budget, leaving an ending fund balance of \$183.8 million. This projected balance does not include any anticipated supplemental appropriations during the 2009 biennium, but does include the statutory authorized \$16.5 million biennial emergency appropriation.

This section provides a summary of the general fund account as projected through the 2009 biennium. It begins with a reconciliation of the current (2007 biennium) projected fund balance in order to arrive at the beginning balance for the 2009 biennium. It is followed by a summary of the 2009 biennium projected general fund balance using legislative revenue estimates and appropriations. An overview of significant legislative revenue and disbursement actions is included.

2007 BIENNIUM GENERAL FUND BALANCE

After completion of the December 2005 Special Session Legislature, the unreserved ending general fund balance for the 2007 biennium was projected to be \$228.6 million (Figure 1). This balance was based on: 1) revenue estimates adopted in HJ 1; 2) LFD statutory appropriation, transfers, and reversion estimates; 3) all general fund appropriations authorized by the legislature; and 4) the estimated impacts of all enacted revenue legislation. It was also estimated that supplemental appropriations for FY 2007 would be \$38.3 million, which was included in this projected balance.

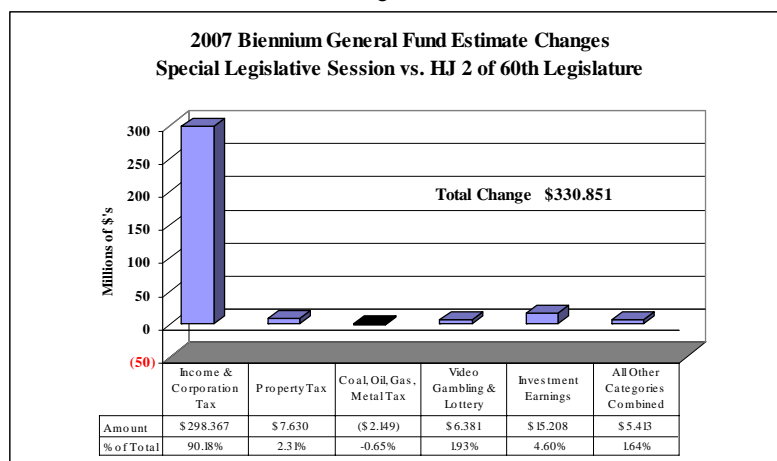
As Figure 1 shows, the revised unreserved general fund balance at the end of the 2007 biennium is now projected to be \$458.9 million. This revised projection is based on: 1) revenue estimates contained in HJ 2 of the 60th Legislature; 2) LFD statutory appropriation, transfer, and reversion estimates; and 3) supplemental appropriations adopted by the legislature. This projected balance equals 13.2 percent of anticipated revenues for the 2007 biennium and is \$230.3 million above the balance anticipated after adjournment of the December 2005 Special Session Legislature.

The increase in the projected general fund balance is due to several factors that have transpired since adjournment of the December 2005 Special Session Legislature. Some of these changes are due to legislation enacted by the 60th Legislature. Current law general fund revenues are now estimated to be \$330.9 million more than anticipated by the 59th Legislature, while disbursements are expected to be \$101.9 million more than authorized by the previous legislature. Fund balance adjustments are expected to be a negative \$19.2 million, which is \$7.2 million more negative than anticipated.

Figure 1

Comparison of 2009 Biennium General Fund Balance Special Session Budget vs. Fiscal Report (In Millions)			
	Special Session 2007 Biennium	Fiscal Report 2007 Biennium	Difference 2007 Biennium
Beginning Fund Balance	\$297.440	\$299.792	\$2.352
Revenues			
Current Law Revenue	3,139.670	3,470.521	330.851
Legislation Impacts		6.302	6.302
Total Funds Available	\$3,437.110	\$3,776.615	\$339.505
Disbursements			
General Appropriations	2,824.181	2,865.535	41.354
Statutory Appropriations	269.321	271.754	2.433
Non-Budgeted Transfers	54.435	68.915	14.480
Supplemental Appropriations	38.326	83.285	44.959
Feed Bill Appropriations	10.236	8.959	(1.277)
Total Disbursements	\$3,196.499	\$3,298.448	\$101.949
Adjustments	(12.015)	(19.224)	(7.209)
Projected Ending Fund Balance	\$228.596	\$458.943	\$230.347

Figure 2



The improved current law revenue condition (\$330.9 million) can be attributed to the factors shown in Figure 2. As shown in the figure, the three income sources primarily responsible for Montana's revenue picture improvement are individual income, corporation income, and investment earnings. Individual income tax has experienced increased growth, resulting in large part from higher capital gains income in calendar 2004 and 2005, an improvement in wage growth (especially in real wage growth

per worker), and higher royalty income in calendar 2004 and 2005. The corporation income tax has rebounded as Montana and multi-state corporations have recovered from the 2001 recession and the effects of "9/11". Additionally, the impact of the federal stimulus bonus depreciation provisions of calendar 2002 and 2003 will now create a decrease in the amount of depreciation expense corporations can claim in future years. This will result in increased tax liabilities. Finally, investment earnings have improved because of higher short-term interest rates and higher invested cash balances.

In addition to the above revised revenue estimates, legislation enacted by the 60th Legislature is estimated to increase revenues by \$6.3 million. This amount is shown in Figure 1 under the revenue section as "Legislation Impacts".

The primary reasons for the increase in disbursements (\$101.9 million) are as follows:

Increased Disbursements

- Larger supplemental appropriations for wildfires (\$25.2 million), Corrections (\$6.3 million); and the Department of Revenue (\$2.4 million), and new supplement requests for Justice (\$1.3 million), Livestock (\$0.1 million), Transportation (\$1.3 million), Judiciary (\$2.5 million), Public Defender (\$5.4 million), and the Office of Public Instruction (\$0.6 million) and
- Increases in statutory appropriations of \$16.5 million for emergency appropriations and \$0.7 million for local entitlement payments are offset by a decrease to estimated statutory appropriations of premium taxes to retirement funds of \$14.9 million, primarily due to late payments by the State Auditor. In addition, the 2007 legislature enacted SB 169 that increases the local government entitlement payments for six counties by \$0.1 million FY 2007.
- General appropriations increase due to the net effect of greater anticipated reversions in appropriations for support of public schools and \$55.4 million of appropriations authorized by the 60th Legislature. Based on RTIC revenue estimates, deposits to the guarantee account are expected to increase due to increases in mineral royalty and related revenue. Therefore, general fund appropriations, including anticipated reversions, are reduced accordingly. These additional reversions are offset by additional appropriations approved by the 60th Legislature. A \$50.0 million appropriation for the teacher's retirement system was approved for FY 2007.

Decreased Disbursements

- Transfers are reduced due to reductions in anticipated transfers from HB 414 which did not occur (\$1.1 million), vehicle fee transfers (\$0.2 million), and HB 761 (\$0.5 million). These reductions are offset by an increase in DPHHS non-budgeted transfers of \$0.8 million. In addition, the 2007 legislature enacted six pieces of legislation that increases FY 2007 transfers by \$15.4 million. The largest of these is \$15.0 million transferred by HB 829 to the Blackfoot Tribe water rights compact mitigation state special revenue account.
- Estimated feed bill appropriations decrease \$1.3 million because \$2.1 million of FY 2006 continuing feed bill appropriations anticipated for the special session (prior to the end of FY 2006) are not included in the updated estimates. This amount is offset by an increase in the estimate of the FY 2007 feed bill from \$7.0 million to \$7.9 million.

Fund Balance Adjustments

These adjustments consist of prior year adjustments to revenues and expenditures and any direct adjustments to fund balance. Unlike the December 2005 Special Session estimates, this analysis contains actual prior year adjustments for FY 2006 as well as more recent estimates for FY 2007. It also includes the \$15.7 million prior year expenditure for the missed payment of insurance premium tax revenue to retirement funds in FY 2006.

As Figure 1 shows, the combined impact of higher revenues, higher disbursements, and negative fund balance adjustments is a net increase in the projected fund balance of \$230.3 million for the 2007 biennium.

2009 BIENNIUM PROJECTION

Figure 3 shows the 2009 biennium projected balance in the general fund account prior to and after the 60th Legislature. The purpose of this comparison is to highlight legislative action that established the 2009 biennium budget.

Figure 3

Comparison of 2009 Biennium General Fund Balance Pre-Session Present Law vs. Post-Session Total Budget (In Millions)			
	Pre Session 2009 Biennium	Post Session 2009 Biennium	Difference 2009 Biennium
Beginning Fund Balance	\$530.778	\$458.943	-\$71.835
Revenues			
Current Law Revenue	3,672.973	3,672.973	
Legislation Impacts		8.409	8.409
Total Funds Available	<u>\$4,203.751</u>	<u>\$4,140.325</u>	<u>(\$63.426)</u>
Disbursements			
General Appropriations			
Human Services	723.499	787.195	63.696
Corrections	333.600	346.234	12.634
Higher Education	327.935	365.637	37.702
Public Schools	1,219.632	1,324.682	105.050
Other Agencies	399.659	445.109	45.450
Executive/LFD PL Difference	(109.481)		109.481
Total Gen. Appropriations	<u>\$2,894.844</u>	<u>\$3,268.857</u>	<u>\$374.013</u>
Statutory Appropriations	297.583	432.123	134.540
Miscellaneous Appropriations		16.803	16.803
Non-Budgeted Transfers	18.436	235.179	216.743
Supplemental Appropriations			
Language Appropriations		0.100	0.100
Feed Bill Appropriations	11.020	11.020	
Anticipated Reversions	(7.548)	(7.548)	
Total Disbursements	<u>\$3,214.335</u>	<u>\$3,956.534</u>	<u>\$742.199</u>
Adjustments			
Unreserved Ending Fund Balance	<u>\$989.416</u>	<u>\$183.791</u>	<u>(\$805.625)</u>

The pre-session estimate of a positive \$989.4 million general fund balance was developed under the constraints of Section 5-12-303, MCA. This statute requires the executive and the Legislative Fiscal Analyst to develop and analyze the biennium budget using base, present law, and new proposals as defined in Section 17-7-102, MCA. In essence, the projected balance of \$989.4 million would have been the balance if the legislature had continued state government operations at the "present" authorized level, including all existing taxation policies. Also shown in Figure 3 is a present law difference between the executive and the Legislative Fiscal Division (LFD) pre-session analysis of \$109.5 million. The LFD analysis indicated that present law costs as portrayed by the executive were overstated by more than \$100 million. Since this overstatement was recognized by the Legislature, the post session column includes the adjustment in the respective functional area.

The second estimate of \$183.8 million is the post-session estimate that incorporates all legislation enacted by the 60th Legislature. Figure 3 highlights significant revenue and disbursement actions. The following discussion briefly explains these actions.

SIGNIFICANT REVENUE ACTIONS

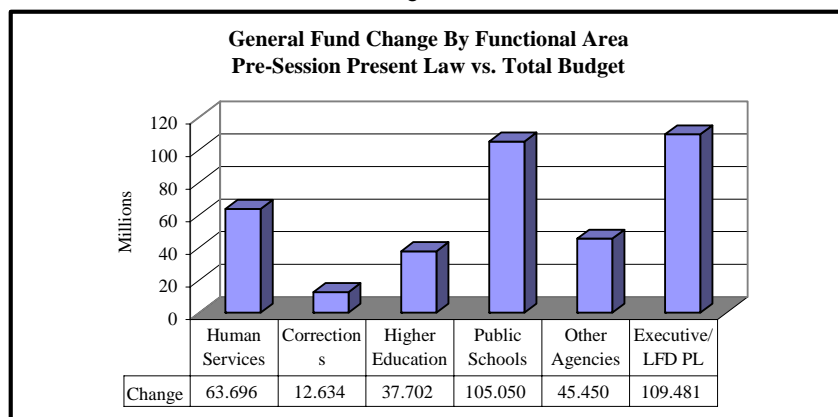
The 60th Legislature did not adjust the 2009 biennium general fund revenue estimates. The revenue estimates as adopted by the Revenue and Transportation Interim Committee on November 16, 2006, were incorporated into HJ 2 (revenue estimate resolution) and these estimates were used to balance the 2009 biennium general fund budget. In addition, the legislature passed tax policy/revenue legislation, which increased state general fund revenue (see the Summary of Tax Policy and Revenue Initiatives). For the 2009 biennium, total general fund revenues were increased by \$8.4 million due to enacted legislation.

A more detailed summary of general fund revenue estimates and revenue impacts of enacted legislation are provided in the "Volume 2 – Revenue Estimates".

SIGNIFICANT DISBURSEMENT ACTIONS

The 60th Legislature increased general fund general appropriations (HB 2 plus HB 13, HB 63, HB 131) by about \$374.0 million. This increase was due to changes in human services, corrections, higher education, and public schools. The largest dollar increases were for public schools and human services. Other agencies include judiciary, justice, and public defender.

Figure 4



The legislature also adopted an employee pay plan for the 2009 biennium. The pay plan increase in HB 13 is \$100.8 million, with \$58.6 million being provided by the state general fund. (See "State Employee Pay Plan", on page 93 for additional details.)

As with previous legislative sessions, there are numerous miscellaneous appropriations ("cat and dog" bills) that were

discussed throughout the session. The 60th Legislature enacted numerous miscellaneous appropriations for a total of \$16.8 million. These bills are discussed in more detail in agency narratives of Volumes 3 and 4 of this publication and on page 106 of this Volume.

As shown in Figure 3, total appropriations for statutory and authorizations for non-budgeted transfers is \$667.3 million, or 16.9 percent of the total general fund budget. Because these authorizations are outside the general legislative appropriations sub-committee process, they do not receive the same level of review as appropriations in HB 2. The 60th Legislature enacted five new statutory appropriations and changed existing ones for an increase of \$0.6 million. The legislature also enacted eight new transfers and changed existing ones for an increase of \$13.2 million.

CONTINGENCIES

No estimate is included in the projected fund balance for increased expenditures due to supplemental appropriations. Supplemental budget requests historically exceed \$20 million per biennium.

Figure 5 shows the detailed general fund balance sheet. The 2009 biennium ending general fund balance is projected to be \$183.8 million, including all initiatives adopted by the legislature. It should be noted that this projected balance does not include additional revenue currently being received in excess of the revenue estimates used by the 60th Legislature.

Figure 5

2007 and 2009 Biennium General Fund Balance Based on Action of the 60th Legislature (In Millions)						
	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated 2007 Biennium	Estimated 2009 Biennium
Beginning Fund Balance	\$299.792	\$408.580	\$458.943	\$249.505	\$299.792	\$458.943
Revenues						
Current Law Revenue	1,708.166	1,762.355	1,797.764	1,875.209	3,470.521	3,672.973
Legislation Impacts		6.302	8.139	0.270	6.302	8.409
Total Funds Available	\$2,007.958	\$2,177.237	\$2,264.846	\$2,124.984	\$3,776.615	\$4,140.325
Disbursements						
General Appropriations	1,441.188	1,303.427	1,614.569	1,654.289	2,744.615	3,268.858
Statutory Appropriations	120.226	151.528	265.028	167.095	271.754	432.123
Miscellaneous Appropriations	1.521	120.459	9.057	7.746	121.980	16.803
Non-Budgeted Transfers	24.277	44.638	127.561	107.618	68.915	235.179
Continuing Appropriations		46.074			46.074	
Supplemental Appropriations		83.285			83.285	
Language Appropriations	0.706	0.636	0.050	0.050	1.342	0.100
Feed Bill Appropriations		8.959	2.280	8.740	8.959	11.020
Anticipated Reversions	(21.179)	(27.297)	(3.204)	(4.344)	(48.476)	(7.548)
Total Disbursements	\$1,566.739	\$1,731.709	\$2,015.341	\$1,941.194	\$3,298.448	\$3,956.535
Adjustments	(32.639)	13.415			(19.224)	
Unreserved Ending Fund Balance	\$408.580	\$458.943	\$249.505	\$183.790	\$458.943	\$183.790
Net Operations	\$141.427	\$36.948	(\$209.438)	(\$65.715)	\$178.375	(\$275.153)



REVENUE SUMMARY

GENERAL FUND REVENUE ESTIMATES

HOUSE JOINT RESOLUTION 2

On November 16, 2006, the Revenue and Transportation Interim Committee (RTIC) formally adopted economic assumptions and the associated revenue estimates for fiscal 2007, 2008 and 2009. The actions of the committee were formalized by directing staff to prepare a bill draft, HJ 2, the revenue estimate resolution. This process is in accordance with 5-18-107, MCA, which states that these estimates "constitute the legislature's current revenue estimates until amended or until final adoption of the estimates by both houses." HJ 2 was drafted by staff and was introduced by Representative Lake at the beginning of the 60th Legislature. During the legislative process, the legislature chose not to amend HJ 2. Although the resolution was not formally adopted by the legislature, the estimates contained within the resolution were used to balance the state's general fund budget.

Figure 6 shows the total general fund revenue estimates as recommended by the RTIC. For the three-year period, fiscal 2007 through 2009, total general fund revenues were estimated to be \$5.435 billion.

Figure 6

Revenue Estimate Adjustments by 60th Legislature General Fund In Millions				
Revenue Issue	Fiscal 2007	Fiscal 2008	Fiscal 2009	3-Year Total
Revenue and Transportation Committee	\$1,762.355	\$1,797.764	\$1,875.209	\$5,435.328
House Taxation Committee Adjustments	0.000	0.000	0.000	0.000
Senate Taxation Committee Adjustments	0.000	0.000	0.000	0.000
Revised HJR2 Revenue Estimates	\$1,762.355	\$1,797.764	\$1,875.209	\$5,435.328

Figure 7 shows the current law general fund estimates by revenue source as contained in HJ 2. Actual fiscal 2006 collections are shown, along with projections for fiscal 2007 through 2009.

Figure 7

House Joint Resolution 2 General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$797.035	\$851.111	\$1,562.769	\$1,648.146	44.87%
2 Property Tax	10.40%	177.639	189.282	198.124	206.794	366.921	404.918	55.90%
3 Corporation Income Tax	9.00%	153.675	161.057	161.301	167.267	314.732	328.568	64.84%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.85%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.85%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.129	64.071	119.036	126.200	74.29%
7 Coal Trust Interest	1.82%	31.106	29.959	29.927	29.945	61.065	59.872	75.92%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.58%
9 All Other Revenue	1.87%	31.867	31.542	30.877	31.550	63.409	62.427	79.28%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.49%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.65%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.23%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.40%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.41%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.224	101.288	178.804	202.512	90.92%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.201	9.394	31.808	18.595	91.43%
17 Public Institution Reimbursements	0.75%	12.728	11.451	12.742	12.810	24.179	25.552	92.12%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.79%
19 Coal Severance Tax	0.56%	9.597	9.813	10.114	9.688	19.410	19.802	93.33%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.15%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	95.97%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.34%
23 Lottery Profits	0.53%	9.110	8.345	8.838	9.414	17.455	18.252	96.84%
24 Liquor Profits	0.44%	7.450	7.593	8.047	8.515	15.043	16.562	97.29%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.60%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.60%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.86%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.37%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.64%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.82%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.03%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.27%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.49%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.74%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,708.166</u>	<u>\$1,762.355</u>	<u>\$1,797.764</u>	<u>\$1,875.209</u>	<u>\$3,470.521</u>	<u>\$3,672.973</u>	100.00%

Revenue Impacts of Legislation

Figure 8 shows the general fund revenue impacts of legislation enacted by the 60th Legislature. If more than one bill were enacted that impacts a particular revenue source, the cumulative impact of the bills is shown for each revenue source.

Figure 8

Revenue Legislation Impacts of 60th Legislature Total General Fund In Millions						
Source of Revenue	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Estimated 07,08,09
1 Individual Income Tax	\$0.000	\$5.531	(\$0.463)	\$0.000	\$5.068	\$5.068
2 Property Tax	2.802	(0.007)	0.065	2.802	0.058	2.860
3 Corporation Income Tax	-	(0.030)	(0.203)	-	(0.233)	(0.233)
4 Vehicle Tax	-	-	-	-	-	-
5 Common School Interest and Income	-	-	-	-	-	-
6 Insurance Tax & License Fees	-	(0.008)	(0.009)	-	(0.017)	(0.017)
7 Coal Trust Interest	-	(0.011)	(0.315)	-	(0.326)	(0.326)
8 US Mineral Royalty	-	-	-	-	-	-
9 All Other Revenue	3.500	1.916	1.323	3.500	3.239	6.739
10 Tobacco Settlement	-	-	-	-	-	-
11 Telecommunications Excise Tax	-	-	-	-	-	-
12 Video Gambling Tax	-	-	-	-	-	-
13 Treasury Cash Account Interest	-	-	-	-	-	-
14 Estate Tax	-	-	-	-	-	-
15 Oil & Natural Gas Production Tax	-	0.011	0.011	-	0.022	0.022
16 Motor Vehicle Fee	-	0.406	0.433	-	0.839	0.839
17 Public Institution Reimbursements	-	0.765	-	-	0.765	0.765
18 Lodging Facility Use Tax	-	-	-	-	-	-
19 Coal Severance Tax	-	(0.250)	(0.250)	-	(0.500)	(0.500)
20 Liquor Excise & License Tax	-	-	-	-	-	-
21 Cigarette Tax	-	-	-	-	-	-
22 Investment License Fee	-	-	-	-	-	-
23 Lottery Profits	-	(0.044)	(0.114)	-	(0.158)	(0.158)
24 Liquor Profits	-	(0.140)	(0.208)	-	(0.348)	(0.348)
25 Nursing Facilities Fee	-	-	-	-	-	-
26 Foreign Capital Depository Tax	-	-	-	-	-	-
27 Electrical Energy Tax	-	-	-	-	-	-
28 Metalliferous Mines Tax	-	-	-	-	-	-
29 Highway Patrol Fines	-	-	-	-	-	-
30 Public Contractors Tax	-	-	-	-	-	-
31 Wholesale Energy Tax	-	-	-	-	-	-
32 Tobacco Tax	-	-	-	-	-	-
33 Driver's License Fee	-	-	-	-	-	-
34 Rental Car Sales Tax	-	-	-	-	-	-
35 Railroad Car Tax	-	-	-	-	-	-
36 Wine Tax	-	-	-	-	-	-
37 Beer Tax	-	-	-	-	-	-
38 Telephone License Tax	-	-	-	-	-	-
39 Long Range Bond Excess	-	-	-	-	-	-
Total General Fund	<u>\$6.302</u>	<u>\$8.139</u>	<u>\$0.270</u>	<u>\$6.302</u>	<u>\$8.409</u>	<u>\$14.711</u>

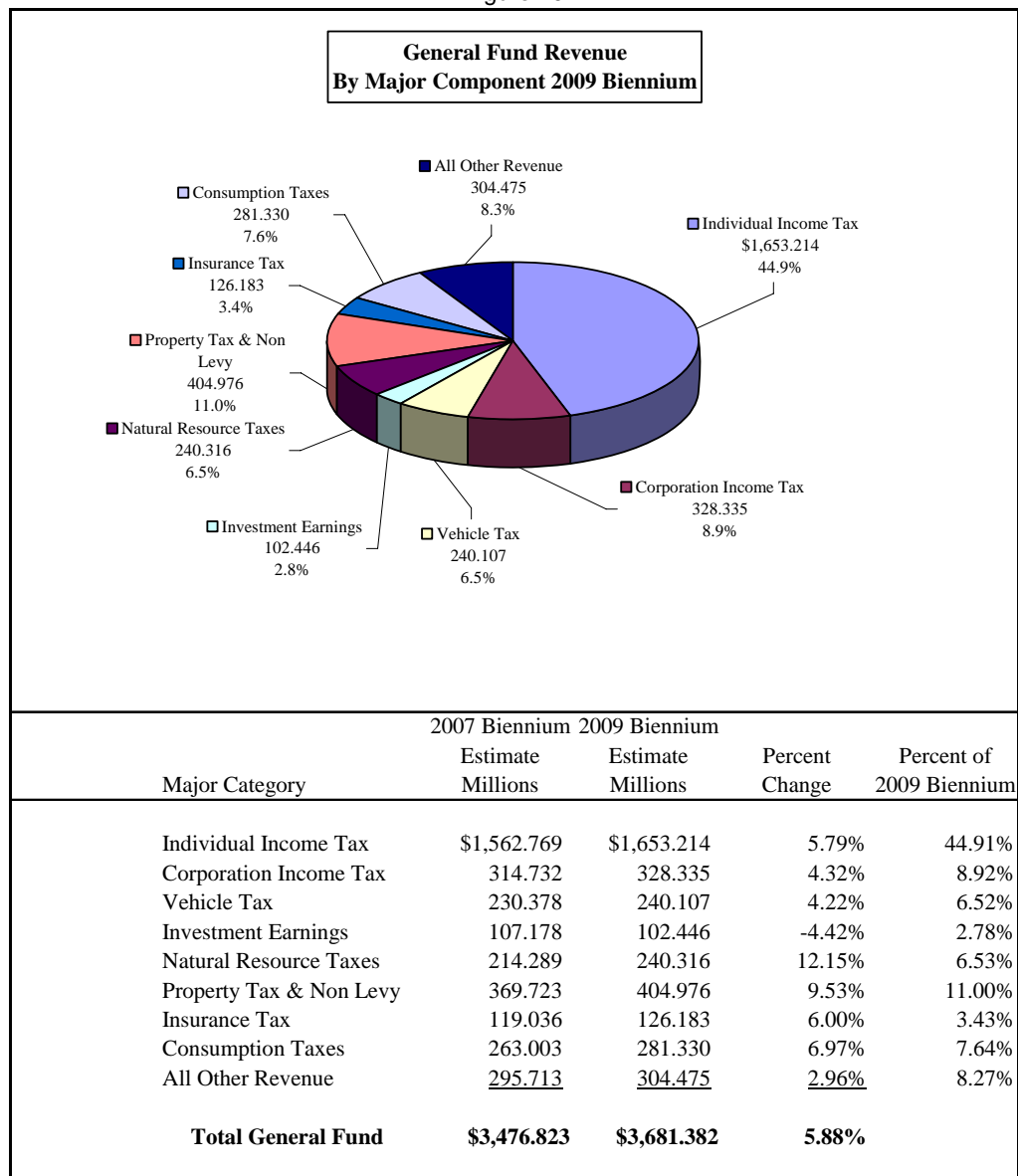
Figure 9 shows the revised total general fund revenue estimates by source, which is the sum of HJ 2 estimates and the impacts of all enacted legislation. These revised estimates are used in this volume to determine the overall financial condition of the general fund for the 2007 and 2009 biennia.

Figure 9

House Joint Resolution 2 Plus Legislation Impacts General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$802.566	\$850.648	\$1,562.769	\$1,653.214	44.91%
2 Property Tax	10.40%	177.639	192.084	198.117	206.859	369.723	404.976	55.91%
3 Corporation Income Tax	9.00%	153.675	161.057	161.271	167.064	314.732	328.335	64.83%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.82%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.82%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.121	64.062	119.036	126.183	74.25%
7 Coal Trust Interest	1.82%	31.106	29.959	29.916	29.630	61.065	59.546	75.87%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.53%
9 All Other Revenue	1.87%	31.867	35.042	32.793	32.873	66.909	65.666	79.31%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.52%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.68%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.25%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.41%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.42%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.235	101.299	178.804	202.534	90.93%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.607	9.827	31.808	19.434	91.45%
17 Public Institution Reimbursements	0.75%	12.728	11.451	13.507	12.810	24.179	26.317	92.17%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.83%
19 Coal Severance Tax	0.56%	9.597	9.813	9.864	9.438	19.410	19.302	93.36%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.17%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	96.00%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.36%
23 Lottery Profits	0.53%	9.110	8.345	8.794	9.300	17.455	18.094	96.85%
24 Liquor Profits	0.44%	7.450	7.593	7.907	8.307	15.043	16.214	97.29%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.61%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.61%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.87%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.37%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.64%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.83%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.03%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.27%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.49%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.74%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,708.166</u>	<u>\$1,768.657</u>	<u>\$1,805.903</u>	<u>\$1,875.479</u>	<u>\$3,476.823</u>	<u>\$3,681.382</u>	100.00%

Figure 10 shows the revenue contribution to the general fund account by the most significant revenue components. During the 2009 biennium, over 71 percent of total general fund revenue comes from income, property, and vehicle taxes, while about 3 percent is generated from investment earnings. Natural resource taxes are estimated to produce about 7 percent of total general fund revenue during the 2009 biennium. The information shown in Figure 10 illustrates the significant dependence the state has on income, property, and vehicle taxes to fund general government operations. In addition, Figure 10 shows the general fund will receive an estimated \$102 million in the 2009 biennium from investment earnings. Although these revenues are due to the investment by the state of taxpayer dollars, they can be viewed as taxpayer savings or relief. Without these revenues, the state would either have to cut services, increase other revenues, or do a combination of both.

Figure 10



Total general fund revenues for the 2009 biennium are projected to increase \$204.6 million or 5.9 percent over the 2007 biennium projections. The comparative change by major revenue category is shown at the bottom of Figure 10. Included in this increase is \$8.4 million of increased revenue in the 2009 biennium due to the enactment of the legislation shown in Figure 12.

Non-General Fund Revenue Estimates

Figure 11 shows estimates for selected non-general fund revenue for fiscal years 2007, 2008, and 2009 in HJ 2, plus changes made by enacted legislation. These estimates were included because of their importance in the budgeting process.

Figure 11

House Joint Resolution 2 Plus Legislation Impacts Non-General Fund Revenue Estimates In Millions

Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Diesel Tax	19.22%	\$70.595	\$74.285	\$78.147	\$82.210	\$144.880	\$160.357	21.23%
2 Federal Forest Receipts	3.49%	12.800	13.006	13.148	13.282	25.806	26.430	24.73%
3 Gasoline Tax	36.81%	135.192	135.742	136.295	136.850	270.934	273.145	60.89%
4 GVW and Other Fees	7.87%	28.916	28.693	28.497	28.982	57.609	57.479	68.50%
5 Resource Indemnity Tax	0.40%	1.456	1.307	1.335	1.290	2.763	2.625	68.85%
6 Arts Trust Interest	0.12%	0.447	0.483	0.496	0.510	0.930	1.006	68.98%
7 Capital Land Grant Interest and Income	0.43%	1.590	1.072	1.157	1.217	2.662	2.374	69.30%
8 Deaf & Blind Interest and Income	0.08%	0.291	0.284	0.286	0.287	0.575	0.573	69.37%
9 Parks Trust Interest	0.26%	0.972	0.983	1.009	1.036	1.955	2.045	69.64%
10 Pine Hills Interest and Income	0.11%	0.397	0.387	0.389	0.391	0.784	0.780	69.75%
11 RIT Trust Interest	1.61%	5.916	5.645	5.646	5.658	11.561	11.304	71.24%
12 TSE Trust Interest	2.19%	8.039	8.434	8.950	9.489	16.473	18.439	73.69%
13 Economic Development Trust	0.33%	1.194	1.455	1.716	1.982	2.649	3.698	74.18%
14 Tobacco Trust Interest	0.92%	3.388	3.939	4.567	5.413	7.327	9.980	75.50%
15 Regional Water Trust Interest	0.42%	1.527	1.823	2.082	2.348	3.350	4.430	76.08%
16 Property Tax: 6 Mill	3.25%	11.952	12.505	12.971	13.363	24.457	26.334	79.57%
17 Common School Interest and Income	22.49%	<u>82.606</u>	<u>75.414</u>	<u>77.653</u>	<u>76.661</u>	<u>158.020</u>	<u>154.314</u>	100.00%
Total Non-General Fund	100.00%	\$367.275	\$365.457	\$374.344	\$380.969	\$732.732	\$755.313	100.00%

SUMMARY OF TAX POLICY AND REVENUE INITIATIVES

Figure 12 shows the revenue impacts of legislation enacted by the 60th Legislature summarized by bill number. For the three-year period, fiscal 2007 through 2009, total general fund revenues were increased by a net \$14.7 million. There were numerous bills that decreased revenue as well as others that increased revenue. The net impact of all the decreases combined with the increases was an increase of \$14.7 million. Figure 12 summarizes the impacts of each bill by fiscal year for bills enacted during the regular legislative session and those passed during the special session.

Figure 12

Impact of Enacted Legislation By Bill Number General Fund and Total Funds					
Bill Number and Short Description	General Fund Impact Fiscal 2007	General Fund Impact Fiscal 2008	General Fund Impact Fiscal 2009	General Fund Impact 07,08,09	Total Funds Impact 07,08,09
Regular Session Legislation					
HB0003 Supplemental appropriations	\$2,802,315	\$765,000	\$0	\$3,567,315	\$3,567,315
HB0008 Renewable resource bonds and loans	-	-	-	-	28,679,448
HB0009 Cultural and aesthetic grants	-	-	-	-	1,666,411
HB0019 Prohibit diversion of Morrill Act land revenue for administrative costs	-	-	-	-	160,000
HB0027 Establish wireless enhanced 9-1-1 system	-	274,049	292,602	566,651	15,151,103
HB0037 Weed control on state land	-	-	-	-	15,000
HB0039 Ownership update for water rights	-	-	-	-	(260,500)
HB0040 Revise state movie incentive laws	-	-	-	-	(27,000)
HB0057 Foster parent liability insurance	-	-	-	-	140,000
HB0063 Actuarially fund teacher retirement system	-	-	-	-	77,906,428
HB0069 Licensure and regulation for certain residential mortgage lenders	-	-	-	-	1,156,500
HB0090 Increase loan authority for MT enhanced registration & license info. network	-	-	-	-	-
HB0099 Increase fees for weighing device licenses	-	-	-	-	206,990
HB0116 Revise RIT funding laws	-	11,220	11,227	22,447	4,100,000
HB0131 Actuarial funding for MPERA retirement systems	-	-	-	-	3,054,164
HB0139 Establish legislative branch retirement termination pay account	-	-	-	-	400,000
HB0141 Generally revise Montana consumer loan act	-	-	-	-	290,500
HB0148 Pool inspection fee	-	-	-	-	102,400
HB0155 Extend National Guard life insurance reimbursement	-	-	-	-	260,000
HB0160 Repay land trusts for prior diversions	-	-	-	-	595,889
HB0166 Extend biodiesel tax credit	-	-	(67,500)	(67,500)	(67,500)
HB0179 Create Montana military family relief fund	-	-	-	-	1,134,186
HB0198 Increase CHIP dental benefit	-	-	-	-	708,281
HB0240 Short-term emergency lodging tax credit	-	(60,000)	(60,000)	(120,000)	(120,000)
HB0278 Continue genetics program and fee	-	-	-	-	567,620
HB0298 Reauthorize natural resource damages program	-	(11,320)	(22,640)	(33,960)	(33,960)
HB0348 Increase out-of-state snowmobile fees	-	-	-	-	211,460
HB0362 Authorize cancellation of certain delinquent real property taxes	-	-	-	-	-
HB0364 Establish board and fund to compensate livestock owners for wolf predation	-	-	-	-	-
HB0378 Revise nursing home administration laws	-	-	-	-	2,376
HB0390 Telephone account wagering on internet horseracing	-	-	-	-	364,000
HB0402 Revise fees collected by supreme court	-	8,127	8,127	16,254	16,254
HB0406 Montana community health center support	-	-	-	-	1,399,346
HB0461 Cigarette fire safety standards	-	-	-	-	132,000
HB0473 Eliminate water adjudication fee	-	-	-	-	20,957,951
HB0487 Revise threshold for local government audit	-	-	-	-	(28,000)
HB0490 Adoption tax credit	-	(225,426)	(278,492)	(503,918)	(503,918)
HB0569 Generally revise nursery laws	-	(2,100)	(2,100)	(4,200)	70,220
HB0583 Revise opencut mining law	-	-	-	-	(7,650)
HB0608 Transfer general fund to children's trust fund	-	-	-	-	1,112,500
HB0616 Allow parimutuel wagering on fantasy sports leagues	-	-	-	-	4,201,520

Figure 12 continued on next page

Figure 12 (continued)

Impact of Enacted Legislation By Bill Number General Fund and Total Funds					
Bill Number and Short Description	General Fund Impact Fiscal 2007	General Fund Impact Fiscal 2008	General Fund Impact Fiscal 2009	General Fund Impact 07,08,09	Total Funds Impact 07,08,09
HB0634 Increase bonding authority of facility finance authority	-	(20,719)	(78,937)	(99,656)	(99,656)
HB0665 License and regulate athletic trainers	-	-	-	-	127,500
HB0680 Revise tax laws to authorize department of revenue to collect out-of-state debt	-	1,255,102	1,255,102	2,510,204	2,510,204
HB0688 Provide an allocation of coal severance taxes to DEQ for certain mines programs	-	(250,000)	(250,000)	(500,000)	-
HB0737 Revise motor vehicle law	-	361,350	361,350	722,700	722,700
HB0755 Exempt certain gift certificate from abandoned property law	-	(9,750)	(15,572)	(25,322)	(38,957)
HB0769 Require registration of alternative adolescent programs and rules for regulation	-	-	-	-	16,182
HB0790 Revise unemployment insurance contribution rates & admin. assessments	-	-	-	-	(15,101,705)
HB0811 Traditional arts and crafts state special revenue account	-	-	-	-	1,015
HB0831 Revise water use laws in closed basins	-	-	-	-	36,000
HB0840 Revise license plate laws	-	21,173	42,350	63,523	63,523
SB0004 Procurement rebate regulation	-	169,876	170,048	339,924	933,541
SB0008 Independent staff for Board of Land Commissioners	-	-	-	-	149,950
SB0025 Revise contract timber harvest laws	-	-	-	-	325,000
SB0044 Expand hunting "super tag" to lion, antelope, and buffalo	-	-	-	-	167,490
SB0069 Revise value-added loan program laws	-	-	(292,050)	(292,050)	(292,050)
SB0084 Transfer forest reserve fund administration to DOA	-	-	-	-	-
SB0088 Extend indefinitely funding to heritage preservation and development account	-	-	-	-	-
SB0115 Revise allocation of wildlife crime restitution penalties to FWP	-	(67,956)	(67,956)	(135,912)	-
SB0118 Eliminate sunset for hospital bed tax	-	-	-	-	120,233,380
SB0127 Revise out-of-state winery access to Montana retailers	-	100,325	142,850	243,175	486,350
SB0131 Revise land banking laws	-	-	-	-	12,889,960
SB0150 Exclude property contributions from qualified endowment credit and extend credit	-	-	(3,012,189)	(3,012,189)	(3,012,189)
SB0158 Revise laws on transportation reciprocity agreements	-	-	-	-	979,990
SB0161 Revise captive insurance laws	-	(8,000)	(9,250)	(17,250)	-
SB0162 Revise genetics program laws	-	-	-	-	111,850
SB0165 Revise deferred deposit loan act	-	-	-	-	158,374
SB0166 Family and purple heart recipients fish and hunt game birds for free	-	-	-	-	(273,630)
SB0168 Transfer public employee accrued leave into post-retirement health care account	-	-	-	-	37,584
SB0185 Provide for medium speed electric vehicles	-	5,600	11,025	16,625	16,875
SB0209 Transfer registered process servers to Board of Private Security Patrol Officers	-	(2,500)	(2,800)	(5,300)	(3,840)
SB0243 Revise military special hunting and fishing license	-	-	-	-	107,168
SB0248 Ratify USFS water compact	-	-	-	-	16,000
SB0281 Simplify income taxation for married couples filing individually	-	(502,000)	(502,000)	(1,004,000)	(1,004,000)
SB0296 Revise beer and wine licensing laws	-	717,000	32,400	749,400	1,498,800
SB0314 Revise warm water fishing stamp law	-	-	-	-	27,972
SB0316 Clarify taxation of agricultural parcels reduced by public use by government	-	(105)	(135)	(240)	(240)
SB0321 Authorize business and industrial development corporations	-	-	-	-	14,431
SB0354 Revise physician medicaid reimbursement conversion factor	-	-	-	-	-
SB0372 Create wolf licenses and authorize wolf and grizzly bear lottery or auction	-	-	-	-	882,186
SB0403 Revise property tax exemption for disabled veterans	-	(6,737)	(7,002)	(13,739)	(14,602)
SB0439 Withholding for natural resource royalty payments	-	1,497,868	2,494,183	3,992,051	3,992,051
SB0448 Ratepayer fiscal analysis for new power and transmission projects	-	-	-	-	105,000
SB0485 Revise prohibition on mailing lists for certain professions and occupations	-	-	-	-	26,480
SB0532 Revise firefighter retirement laws	-	-	-	-	2,375,763
SB0544 Montana certified natural beef cattle marketing program	-	-	-	-	5,000
SB0553 Revise incentives for certain physicians	-	-	63,100	63,100	326,200
Special Session Legislation					
HB0002 General appropriations act	-	97,138	(18,144)	78,994	(780,928)
HB0003 Tax incentives for energy development	-	-	72,000	72,000	76,600
HB0004 Long-range building bill	3,500,000	-	-	3,500,000	3,500,000
HB0009 \$400 rebate for property taxes paid, tax relief	-	4,021,685	-	4,021,685	4,021,685
SB0002 Revise education laws	-	-	-	-	40,756,019
Total Impact of Legislation Listed Above	\$6,302,315	\$8,138,900	\$269,597	\$14,710,812	\$344,358,360

BILLS AFFECTING GENERAL FUND AND SELECTED NON-GENERAL FUND REVENUE

A complete summary of each general fund and selected non-general fund revenue source can be found in "Volume II - Revenue Estimates". Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, distribution mechanisms, and other useful information. A legislation impact figure (if applicable) is shown summarizing all bills that impact the particular source of revenue. It should be noted that the revenue projection figure and graph in "Volume II – Revenue Estimates" are based on HJ 2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption figures reflect only assumptions pertinent to the HJ 2 revenue estimates and have not been updated for the impacts of enacted legislation.

The following is a brief summary of each bill that impacts general fund and selected non-general fund sources estimated by the legislature. Included in each summary is the particular revenue sources affected.

House Bill 3 – Affected general fund revenue sources: "Property Tax" and "Public Institution Reimbursements". The Department of Revenue is appropriated \$2,802,315 general fund in FY 2007 to reimburse class 8 business equipment tax rate reductions to local governments. Because the tax revenue and expenditure were abated in the past, the tax revenue will now be recorded along with the expenditure in FY 2007. The Judiciary is appropriated \$2.5 million in FY 2007 in part to pay \$765,000 for "fitness to proceed" examinations conducted by the Department of Public Health and Human Services. The Department of Public Health and Human Services is expected to deposit the revenue to the general fund in FY 2008.

House Bill 9 – In addition to appropriating interest earnings from the cultural trust fund, HB 9 transfers \$1.5 million general fund to the cultural trust at the beginning of FY 2008. Earnings from the additional corpus are \$83,129 in FY 2008 and \$83,282 in FY 2009. The legislation is effective July 1, 2007.

House Bill 27 – Affected general fund revenue source: "All Other". The 9-1-1 services fee is increased from \$0.50 a month per line or subscriber to \$1.00. The additional revenue from the increased fee is deposited 3.74 percent to the general fund and half of the remainder is deposited to the state special revenue fund and is statutorily appropriated for distribution to 9-1-1 jurisdictions to enhance wireless services and half is statutorily appropriated to reimburse wireless providers for allowable costs. General fund revenue increases \$274,049 in FY 2008 and \$292,602 in FY 2009. State special revenue increases \$7,053,466 in FY 2008 and \$7,530,986 in FY 2009. The legislation is effective July 1, 2007.

House Bill 37 – Affected state special revenue source: "Common School Interest and Income". The Department of Natural Resources and Conservation is allowed to control weeds on leased state lands and to bill the lessee for the costs plus a penalty up to 50 percent of the costs. Revenue from reimbursements of the actual costs is deposited in the resource development account and the penalty revenue is deposited 95 percent to the guarantee account (\$2,375 each year) and 5 percent to the common school trust (\$125 each year). Since revenue in the guarantee account is statutorily appropriated, expenditures increase by the same amounts. The legislation is effective October 1, 2007.

House Bill 44 – Affected general fund revenue source: "Coal Severance Tax". This legislation eliminates the coal severance tax school bond contingency loan fund. The 53rd Legislature in the

January 2002 special session enacted Senate Bill 5, which among other things: 1) authorized state loans to school districts to pay holders of school district bonds declared invalid or un-enforceable by a final court order or injunction; 2) provided criteria to qualify for the state loans; and 3) established a coal severance tax school bond contingency loan fund (09038) within the coal severance tax trust. The legislation was approved January 21, 1992. Since all applicable school districts have refunded their bonds and the state no longer secures any outstanding loans, the fund is no longer needed.

House Bill 90 - Affected general fund revenue source: "Motor Vehicle Fee". This legislation increases the amount the Board of Investments may loan under the Municipal Finance Consolidation Act by \$6.0 million from \$120.0 million to \$126.0 million. The amount the Department of Justice may borrow for financing the motor vehicle information technology system also increases \$6.0 million from \$22.5 million to \$28.5 million and the term of the loan is extended 5 years from 10 years to 15 years (June 2013 to June 2018). To pay for the additional indebtedness, the following motor vehicles fees earmarked for that purpose are extended five more years:

- Security interest or lien filing fee - The \$8 fee is extended five years from July 2011 to June 2016 with \$4 deposited to the vehicle information technology system account and \$4 to general fund. After June 2016, the fee is \$4 and is deposited to the general fund.
- New certificate of title without security interest or lien shown – The June 2013 termination date for the \$10 fee is repealed. Through June 2018, the \$10 fee is deposited to the vehicle information technology system account. After June 2018, the fee is reduced to \$5 and deposited to the general fund.
- Original certificate of title fee – Through June 2018, \$5 of the \$10 fee (for a non-light vehicle) or \$12 fee (for a light vehicle) is deposited in the vehicle information technology system account. After June 2018, the \$5 fee is eliminated and the remaining fees of \$5 and \$7 continue to be deposited to the general fund.
- Replacement certificate of title fee – Through June 2018, \$5 of the \$10 is deposited to the vehicle information technology system account. After June 2018, the \$5 fee is eliminated and the remaining fee of \$5 continues to be deposited to the general fund.

These changes do not affect general fund revenue in the 2009 biennium, but increase general fund revenue in future biennia.

In addition to the changes above, this legislation appropriates \$6.0 million of capital projects funds for the biennium for the motor vehicle information technology system. This legislation is effective July 1, 2007.

House Bill 116 - Affected general fund and state special revenue sources: "Oil and Natural Gas Production Tax", "Resource Indemnity Trust Interest", and "Resource Indemnity Tax". This legislation repeals the renewable resource grant and loan program account and the reclamation and development grants account. It creates the natural resources operations account (to fund administration and operating costs) and the natural resources projects account (to fund grants and loans). Allocations of tax proceeds are changed:

- A \$150,000 allocation is made to the water storage account
- The 50 percent of the remainder allocation to the orphan share account was eliminated and is allocated equally between the environmental quality protection fund and the hazardous waste/CERCLA account
- All of the remaining proceeds are deposited to the natural resources projects state special revenue account (formerly the renewable resources grant and loan account)

- Allocations of revenue indemnity trust (RIT) interest are changed:
- The biennial \$175,000 allocation to the environmental contingency account is changed to an annual allocation, thus doubling the revenue allocation and the amount statutorily appropriated
- The use of the environmental contingency account is expanded to include natural resource restoration and remediation, but only for the 2009 biennium
- The annual allocation to the natural resources operations account (formerly the renewable resource grant and loan program account) is increased from \$2.0 million to \$3.5 million
- The annual \$1.5 million allocation to the former reclamation and development grants account is eliminated
- The annual \$240,000 allocation to the MSU Northern environmental sciences account and its statutory appropriation are eliminated
- The June 30, 2009 termination date for the \$500,000 annual allocation for the future fisheries program is removed
- The 35 percent allocation of the remainder to the former renewable resource grant and loan program account is eliminated
- The 30 percent allocation of the remainder to the natural resources operations account (formerly the reclamation and development grants account) is increased to 65 percent

This legislation: 1) adds a new 1.45 percent distribution of the tax revenue to the new natural resources projects state special revenue account; 2) reduces the distribution to the new natural resources operations state special revenue account (formerly named the reclamation and development grants account) from 2.95 percent to 1.45 percent; and 3) increases the distribution to the orphan share account from 2.95 percent to 2.99 percent. The distribution to the general fund increases 0.01 percent for an increase in revenue of \$11,220 in FY 2008 and \$11,227 in FY 2009 and a decrease in state special revenue by like amounts. The legislation is effective July 1, 2007.

House Bill 155 – Affected general fund revenue source: “All Other”. This legislation transfers \$60,000 general fund in FY 2007 and \$100,000 for each of the fiscal years 2008 and 2009 to a newly created state special revenue account. The amounts transferred to the account are appropriated in the legislation to reimburse eligible service members for life insurance premiums paid. Although none is projected for the 2009 biennium, any balance at the end of a fiscal year is transferred to the general fund. The legislation is effective on passage and approval.

House Bill 160 – Affected state special revenue source: “Common School Interest and Income”. General fund revenue of \$14,803 is transferred to the common school trust as reimbursement for past inappropriate diversions. Of the additional earnings from this amount, 95 percent or \$827 in FY 2008 and \$798 in FY 2009 is deposited to the guarantee account. The legislation is effective July 1, 2007.

House Bill 166 – Affected general fund revenue sources: “Corporation Tax” and “Individual Income Tax”. The legislation amends the eligibility requirements for corporation or individual income tax credits for investments in depreciable property used to crush oilseed crops for biodiesel production or for building and equipping a biodiesel production facility:

- The credit was expanded to include the production of biolubricant
- The timeframe for which a credit could be claimed was increased from the year in which the property was purchased to two tax years before the facility begins crushing oilseed or producing biodiesel or biolubricant, or in any tax year in which the facility is crushing oilseed or producing biodiesel or biolubricant

- The qualification for the type of property eligible for the credit was changed from one in operation before January 1, 2010 to one in operation before January 1, 2015
- Any unused tax credit can now be carried forward for seven years whereas prior to HB 166 the credit could not be carried forward

HB 166 also amended the eligibility requirements for corporation or individual income tax credits for investments in depreciable property used to blend biodiesel with petroleum diesel and for special fuel distributors or qualifying motor fuel outlet:

In addition to blending, the act of storing biodiesel was included

- The timeframe for which a credit could be claimed was increased from the year in which the blending began to two tax years before the blending begins or in any tax year in which biodiesel is being blended
- Any unused tax credit can now be carried forward for seven year whereas prior to HB 166 the credit could not be carried forward

This legislation extends the deadline in which to claim the credits from tax year 2009 to 2014. The above changes result in more tax credits and a reduction to general fund revenue of \$33,750 in FY 2009 with larger reductions projected for the 2011 biennium. This legislation is effective on passage and approval.

House Bill 240 - Affected general fund revenue sources: "Corporation Tax" and "Individual Income Tax". This legislation creates a new corporation or individual income tax credit. The credit is for licensed establishments in Montana who assist charitable organizations in providing lodging to those displaced from their residence do to the danger of assault or who are referred by a designated charitable organization. The credit is \$30 for each day of lodging up to a maximum of five nights for each individual per year. The credit is refundable. It is projected that the additional credits will reduce general fund revenue by \$30,000 in FY 2008 and \$30,000 in FY 2009. This legislation is effective October 1, 2007 and applies to tax years beginning after 2007.

House Bill 278 – Affected general fund revenue source: "Insurance Tax and License Fees". Beginning July 1, 2007, the genetics program fee is increased from \$0.70 to \$1.00. State special revenue is projected to increase \$279,616 in FY 2008 and \$288,004 in FY 2009.

House Bill 298 – Affected general fund revenue source: "Coal Trust Interest". The Department of Justice is appropriated the unexpended amount from the \$650,000 of loan proceeds appropriated by the 2003 Legislature for the 2005 biennium from the coal severance tax permanent fund. The unexpended amount is estimated to be \$400,000. The purpose of the loan and appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. Because the removal of the money from the trust results in a smaller invested balance, the resulting loss in transfers of trust interest earnings to the general fund is expected to be \$11,320 FY 2008 and \$22,640 in FY 2009. If any reimbursements of the money spent are received, they must be deposited in the coal severance tax permanent fund. The appropriation is effective July 1, 2007.

House Bill 364 – Affected general fund revenue source: "All Other". This legislation establishes a new program and board to reimburse losses by wolves and appropriates \$60,000 general fund for FY 2008 to establish the new board and fund board activities. It also appropriates \$60,000 general fund for FY 2009 for board expenses. This legislation creates, but does not fund, new livestock loss reduction and

mitigation accounts, one in the state special revenue fund and one in the federal special revenue fund. Money in the accounts is to be used to prevent wolf predation on livestock and reimburse producers for livestock losses. This legislation also creates, but does not fund, a trust fund. Until the principal reaches \$5.0 million, money in the trust fund can only be appropriated by a three-fourths vote of each legislative house. Interest from the trust fund is deposited in the livestock loss reduction and mitigation state special revenue account. Until the principal of the trust fund reaches \$5.0 million, up to \$120,000 of income from the trust not spent for the program at the end of a biennium is transferred to the general fund. After the principal of the trust fund reaches \$5.0 million, any income from the trust not spent for the program at the end of a biennium is transferred to the general fund. Since the trust is not funded, no transfers to the general fund are projected for the 2009 biennium.

House Bill 402 – Affected general fund revenue source: “All Other”. The fees for filing a petition for any writ and a notice of appeal in any civil case appealed to the Supreme Court are increased from \$75 to \$100. General fund revenue increases \$8,127 each year of the 2009 biennium. This legislation is effective July 1, 2007.

House Bill 490 – Affected general fund revenue source: “Individual Income Tax”. This legislation allows a tax credit of \$1,000 for each eligible child adopted if the taxpayer qualifies for the federal adoption tax credit. The credit is not refundable, but can be carried forward for five years. The tax credits are projected to reduce general fund revenue by \$225,426 in FY 2008 and \$278,492 in FY 2009. This legislation is effective on passage and approval and applies to tax years beginning after December 31, 2006.

House Bill 569 – Affected general fund revenue source: “All Other”. Among other changes, this legislation earmarks violation revenue to the nursery state special revenue account for a \$2,100 loss in general fund revenue each year of the 2009 biennium and an increase in state special revenue by the same amounts. This legislation is effect October 1, 2007.

House Bill 634 – Affected general fund revenue sources: “All Other” and “Individual Income Tax”. The biennial bonding authority for the Montana Facility Finance Authority is increased from \$250 million to \$500 million. Since interest earnings from the bonds are tax exempt, Montana bond holders will pay no tax on this income. General fund revenue is reduced \$58,219 in FY 2008 and \$116,437 in FY 2009. Bond issuance fees are projected to add \$37,500 each year to the general fund. The legislation is effective on passage and approval.

House Bill 680 – Affected general fund revenue source: “All Other”. The legislation statutorily appropriates general fund to the Department of Revenue (an estimated \$814,378 in FY 2008 and \$802,905 in FY 2009) to enter into contracts with out-of-state people or state agencies for the collection of debt owed Montana and for any other collection costs. The department must determine that the amount collected will exceed the collection costs. General fund revenue is projected to increase \$1,255,102 each year of the 2009 biennium. The legislation is effective July 1, 2007.

House Bill 688 – Affected general fund revenue source: “Coal Severance Tax”. A new allocation of \$250,000 each fiscal year from the coal severance tax revenue is deposited to the new coal and uranium mine permitting and reclamation program state special revenue account. Money in this account is to be used by the Department of Environmental Quality to administer and enforce coal and uranium mine reclamation. General fund revenue is reduced \$250,000 each fiscal year and state special revenue is increased by like amounts. The legislation is effective July 1, 2007.

House Bill 737 – Affected general fund revenue sources: “Motor Vehicle Fee” and “All Other”. The table shows the amount of these changes. The largest changes are from the requirement, beginning January 1, 2008, for the Department of Justice to manufacture and issue new sets of special license plates including collegiate, generic, and commemorative centennial license plates and the requirement that new standard license plates must be issued beginning January 1, 2010 and every four years thereafter. General fund revenue increases \$361,350 in FY 2008 and \$361,350 in FY 2009. The legislation also extends the reporting period for dealers of off-highway vehicles, boats and snowmobiles, eliminates the license fee exemption for the manufacturers of these vehicles, and provides a reduction from eight to six cent for each driving record searched to report a change in license status or conviction activity. “All Other” general fund revenue decreases a net of \$18,250 in FY 2008 and 2009. The legislation is effective January 1, 2008.

House Bill 737 2007 Legislature General Fund Revenues		
Item	FY 2008	FY 2009
<u>Motor Vehicle Fees</u>		
Custom classic motorcycles	\$1,000	\$1,000
Consolidate dealer fees	0	0
Dealer identification cards	2,500	2,500
New issue special license plate fee	377,500	377,500
Auto auction temporary permit	(1,400)	(1,400)
Subtotal	\$379,600	\$379,600
<u>All Other</u>		
Extend annual reporting requirements	\$6,425	\$6,425
Eliminate license fee exemption	285	285
Driving record report fee reduction	(24,960)	(24,960)
Subtotal	(\$18,250)	(\$18,250)
Total	\$361,350	\$361,350

House Bill 755 – Affected general fund revenue source: “All Other”. The legislation exempts from being taxed unclaimed property (the first \$200,000 to be adjusted for inflation) of gift certificates sold by a vendor in the past fiscal year. General fund revenue is reduced \$9,750 in FY 2008 and \$15,572 in FY 2009. The legislation is effective on passage and approval and applies to gift certificates issued after September 30, 2005.

House Bill 840 – Affected general fund revenue source: “Motor Vehicle Fee”. The legislation requires that the license plates for trailers be the same six inch by 12 inch size as motor vehicle license plates. It also allows generic specialty license plates to be issued for trailers and for generic specialty license plates to be permanently registered. General fund revenue is projected to increase \$21,173 in FY 2008 and \$42,350 in FY 2009. The legislation is effective January 1, 2008.

Senate Bill 4 – Affected general fund revenue source: “All Other”. The legislation establishes a procurement rebate state special revenue account that receives money from state procurement card rebates. Money in the account is to be used to administer the procurement card program and to reimburse applicable federal funds. Any unspent balance in the account is transferred to the general fund. General fund revenues increased \$169,876 in FY 2008 and \$170,048 in FY 2009. State special revenue increase \$266,648 in FY 2008 and \$266,982 in FY 2009. The legislation is effective July 1, 2007.

Senate Bill 25 – Affected state special revenue source: “Common School Interest and Income”. The Department of Natural Resources and Conservation is authorized to use contract harvesting to harvest timber products from state trust lands. Rather than selling the timber on the stump, contract harvesting allows the department to retain ownership of the products and contract for the harvesting, sorting, and hauling of the products and to sell the various timber products through competitive bids. The legislation allows the department to exceed the annual sustained harvest level by up to 5 percent using contract harvesting to address forest health concerns. It is estimated that 1.0 million additional board feet from common school trust land will be harvest by this method beginning in FY 2009 at a value of \$325,000. Gross revenue from contract harvesting will be deposited into a new contract harvesting state special

revenue account as a subaccount of the timber sales account. Appropriations of \$280,000 from this account may be used to pay contract timber harvesting costs, except personnel services costs for state employees, with net proceeds distributed to the appropriate trust. Up to \$500,000 from the timber sale account is transferred to the contract harvesting account. Since the additional net revenue of \$45,000 in FY 2009 is additional harvest above 18 million board feet, the revenue is deposited to the guarantee account and is statutorily appropriated to the Office of Public Instruction for school technology purchases and training in FY 2010. The legislation is effective on passage and approval.

Senate Bill 69 – Affected general fund revenue source: “Coal Trust Interest”. The legislation allows the Board of Investments to loan more than 25 percent of money in the permanent coal tax trust fund to: 1) assist employee-owned enterprises in creating new jobs or retaining current jobs for Montana residents; 2) enhance economic development if the loan will create at least 15 additional basic sector jobs; and 3) make loans jointly with financial institutions if at least 10 new jobs would be created. The limit on the total amount of loans for number 2 above was increased from \$50 million to \$80 million and the limit on the total amount of loans for number 3 above was increased from \$50 million to \$70 million. Because the rate of return on these loans are less than the rate of return received from investments in the trust funds bond pool, earnings from the coal severance tax trust fund that are deposited to the general fund are reduced by \$292,050 beginning in FY 2009 with larger reductions projected for the 2011 biennium. The legislation is effective July 1, 2007.

Senate Bill 84 – Affected federal revenue source: “Federal Forest Receipts”. The legislation transfers the administration of the federal funds from the State Auditor to the Department of Administration. There is no change in the amount of revenue. The legislation is effective July 1, 2007.

Senate Bill 88 – Affected state special revenue source: “Lodging Taxes”. Beginning July 1, 2007, the legislation permanently allocates \$400,000 each year of the lodging facility use tax revenue to the Montana heritage preservation and development state special revenue account. State special revenue to the account increases \$400,000 each year. Money in the account is statutorily appropriated. Other allocations of the lodging facility use tax revenue are reduced by a total of the same amount and statutory appropriations reduced accordingly. The legislation is effective on passage and approval.

Senate Bill 115 – Affected general fund revenue source: “All Other”. All money collected as restitution for illegally killing certain wildlife is earmarked for use by the Department of Fish, Wildlife and Parks for hunter education or enforcement. General fund revenue decreases \$67,956 in each fiscal year of the 2009 biennium. State special revenue increases by the same amounts. The legislation is effective July 1, 2007.

Senate Bill 127 – Affected general fund revenue source: “All Other”. Wineries not in Montana are now able to distribute wine directly to retailers in addition to using a distributor as allowed in the past. If a distributor is used, the out-of-state winery pays a fee between \$0 and \$400. If distributing wine directly to retailers, the out-of-state winery now pays an initial \$400 license fee and an annual fee of \$200. Based on each winery’s perception of licensing cost benefits and savings from by-passing distributors, additional wineries are expected to be licensed. License revenue is deposited to the liquor enterprise fund and then transferred to the general fund. General fund revenue increases \$100,325 in FY 2008 and \$142,850 in FY 2009. The legislation is effective October 1, 2007. However, additional costs appropriated in HB 2 (May 2007 Special Session) to implement the legislation reduce the amount transferred to the general fund (see “House Bill 2” under “May 2007 Special Session”).

Senate Bill 150 – Affected general fund revenue source: “Individual Income Tax”. The legislation extends the termination date of the qualified endowments credit from December 31, 2007 to December 31, 2013 and excludes contributions to construct or purchase operational assets such as buildings and equipment. The tax credits are projected to reduce general fund revenue by \$2,872,497 beginning in FY 2009. Reductions in FY 2008 are contained in HJ 2. The legislation is effective on passage and approval.

Senate Bill 161 – Affected general fund revenue sources: “Insurance Tax and License Fees” and “All Other”. Five percent of the premium taxes collected from captive insurance companies that had been deposited to the general fund is earmarked to the newly created captive insurance regulatory and supervision state special revenue account. All fees and assessments collected from captive insurance companies are also deposited to the account. Money in the account is to be used to administer captive insurance company statutes and reimburse expenses incurred in promoting captive insurance in Montana. The balance in the account is transferred to the general fund at the end of each fiscal year. No balance is anticipated in the account for the 2009 biennium. General fund revenue is reduced \$8,000 in FY 2009 and \$9,250 in FY 2009 and state special revenue increases by the same amounts. The legislation is effective October 1, 2007.

Senate Bill 185 – Affected general fund revenue source: “Motor Vehicle Fee”. The legislation creates a new class of light motor vehicle. A “medium-speed electric vehicle” is a vehicle that has a maximum speed of 35 MPH, is propelled by electricity, is fully enclosed, has a 40 inch or greater wheelbase, and has a wheel diameter 10 inches or greater. Titling and vehicle registration fees are projected to increase general fund revenue \$5,600 in FY 2008 and \$11,025 in FY 2009 and increase state special revenue to the motor vehicle information technology system account \$125 in FY 2008 and \$125 in FY 2009. The legislation is effective on passage and approval.

Senate Bill 209 – Affected general fund revenue source: “All Other”. The legislation transfers the registration and oversight of process servers and levying officers from the clerks of district court to the board of private security patrol officers and investigators. The \$100 biennial certificate of registration fee, previously deposited in the general fund, was eliminate and process services now pay professional and occupational licensing state special revenue fees. General fund revenue is reduced \$2,500 in FY 2008 and \$2,800 in FY 2009. The legislation is effective July 1, 2007.

Senate Bill 281 – Affected general fund revenue source: “Individual Income Tax”. Married taxpayers filing a joint federal income tax return, but filing separate Montana income tax returns, may now claim the same deduction amount on the Montana form as claimed on the federal form, either split equally or attributed to one spouse, for the following deductions:

- Capital loss
- Passive and rental income losses
- Individual retirement contribution (attributed to the spouse who made the contribution)
- Qualified education loan interest
- Qualified tuition related expenses

The net change in taxable income results in a general fund loss of \$502,000 each fiscal year. The legislation is effective on passage and approval and applies to tax years beginning after December 31, 2006.

Senate Bill 296 – Affected general fund revenue source: “All Other”. The number of available restaurant beer and wine licenses issued by the Department of Revenue increases. The initial licensing fee depends on the seating capacity of the restaurant: 1) \$5,000 for a capacity of 60 people or less; 2) \$10,000 for a capacity of 61 to 100 people; and 3) \$20,000 for a capacity of greater than 100. The annual license fee is \$400. License revenue is deposited to the liquor enterprise fund and then transferred to the general fund. General fund revenue increases \$717,000 in FY 2008 and \$32,400 in FY 2009. The legislation is effective July 1, 2007. However, additional costs appropriated in HB 2 (May 2007 Special Session) to implement the legislation reduce the amount transferred to the general fund (see “House Bill 2” under “May 2007 Special Session”).

Senate Bill 316 – Affected state special revenue source: “Property Tax”. For agricultural land that was reduced to less than 20 acres due to eminent domain, the legislation allows the land to still qualify as agricultural land. General fund revenue from the 95 mills and 1.5 mills is reduced by \$105 each year. State special revenue from the 6 mills is reduced by \$7 each year.

Senate Bill 403 – Affected state special revenue source: “Property Tax”. The property tax exemption for a disabled or deceased veteran now includes up to five appurtenant acres instead of just one lot. The reduction to the tax base reduces general fund revenue from the 95 mills and 1.5 mills by \$6,737 in FY 2008 and \$7,002 in FY 2009. State special revenue from the 6 mills is reduced by \$423 in FY 2008 and \$440 in FY 2009.

Senate Bill 439 – Affected general fund revenue source: “Individual Income Tax”. Entities making royalty payments to royalty owners must withhold and remit to the Department of Revenue six percent of the royalty payment. Exceptions are:

- Royalty owners who are the U.S. government, state governments, Indian tribes, the U.S. as trustee for Indians, publicly traded partnerships, an exempt organization, and the same person as the remitter
- Remitters who annually produce less than 100,000 barrels of oil and less than 500 million cubic feet of gas, as determined by a 3-year rolling average
- Royalty payments less than \$166 for the withholding period or less than \$2,000 for an annualized payment if the remitter requests the exception and the department approves it

The amount of tax withheld must be reported and sent to the Department of Revenue on a quarterly basis. The remitter must file an annual report by February 28th showing the total royalties paid to each royalty owner and the total amount of tax withheld. Additional general fund revenue is projected to be \$1,497,868 in FY 2008 and \$2,494,183 in FY 2009. The legislation is effective January 1, 2008 and applies to royalty payments made after December 31, 2007.

Senate Bill 553 – Affected general fund revenue source: “Individual Income Tax”. Beginning in tax year 2008, licensed physicians starting practice in a rural area will no longer be entitled to the yearly \$5,000 individual income tax credit over a four-year period. Those who were entitled to the credit prior to tax year 2008 may still claim any remaining credit. Since the credit reduces general fund revenue, the phase-out of the credit claimed by those remaining in the program increases general fund revenue by \$63,100 in FY 2009 increasing to \$252,400 in FY 2012 (reflecting zero credits claimed in tax year 2011). After tax year 2010, no more credits can be claimed. Applicable statutes are terminated December 31, 2010.

This legislation also transfers general fund to the “incentive for physicians practicing in rural areas or medically underserved areas or for underserved populations” state special revenue account in an amount equal to the increase in general fund revenue from the phase-out of the above tax credit. Beginning in FY 2012 and each year after, the amount of this general fund transfer will be \$252,400. Beginning 2009, the legislation also increases the allowable amount of the fee assessed to students preparing to be a physician (and who are supported by the state by an interstate compact) from 8 percent of the annual medicine support fee to 16 percent. The additional revenue of \$200,000 each year from this increase is deposited in the “incentive for physicians practicing in rural areas or medically underserved areas or for underserved populations” state special revenue account. Money in the account is statutorily appropriated to the Board of Regents.

May 2007 Special Session

House Bill 2 – Affected general fund revenue sources: “All Other”, “Common School Interest and Income”, “Individual Income Tax”, “Liquor Profits”, and “Lottery Profits”. In certain cases, the amount of money appropriated from certain accounts impacts the amount of general fund revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the executive budget and finalized in HJ 2, final appropriations set by the legislature (such as those in HB 2, HB 13, HB 63 and HB 131) may differ and, thus, may affect revenue.

House Bill 3 – Affected general fund revenue source: “Property Tax”. The legislation provides several property tax relief mechanisms for facilities that produce “clean” energy. The relief mechanisms are:

- Tax abatements of 50 percent of taxable value for certain environmentally friendly, i.e. “clean”, facilities. The tax abatement is available for 4 years during the construction of a facility and 15 years thereafter
- Creation of a new class 15 tax class containing carbon dioxide capturing equipment and facilities, with a tax rate of 3 percent
- Creation of a new class 16 tax class containing high-voltage direct current converter stations that are constructed in a location and manner so that the converter station can direct power to two different regional power grids. The tax rate for class 16 is 2.25 percent
- Exemption from property taxes of land that is within 660 feet on either side of the midpoint of a transmission line right-of-way or easement
- Expansion of class 14 property to include certain “clean” facilities and equipment. Class 14 has a tax rate of 3 percent

The property eligible to receive the tax abatement, and the property in classes 14, 15 and 16 are:

- Biodiesel production facilities, class 14
- Biogas production facilities, class 14
- Biomass production facilities, class 14
- Coal gasification facilities for which carbon dioxide is sequestered, class 14
- Ethanol production facilities, class 14
- Geothermal facilities, class 14
- Renewable energy manufacturing facilities, class 14
- Clean advanced coal research and development equipment and renewable energy research and development equipment, class 14
- A natural gas combined cycle facility that offsets a portion of the carbon dioxide produced through carbon credit offsets, class 14
- Transmission lines and associated equipment and structures, class 14

- Converter stations classified as class 16 property
- Carbon sequestration equipment classified as class 15 property
- Pipelines classified as class 15 property
- Up to \$1.0 million in value of equipment used in clean advanced coal research and development and renewable energy research and development

Almost none of the property described in HB 3 exists at the current moment. The fiscal note states the Montana-Alberta transmission line will be built if it can be classified in a class with a 3 percent tax rate. Under HB 3, the Montana-Alberta transmission line will be classified in class 14 and with the expansion of class 14 with a rate of 3 percent, general fund revenue increases \$72,000 and state special revenue (6 mill) increases \$4,600 beginning in FY 2009. Revenues are expected to decrease substantially in the 2011 biennium. The legislation is effective on passage and approval.

House Bill 4 – Affected general fund revenue source: “All Other”. The legislation stipulates that all proceeds from the sale of the National Guard armory in Missoula are to be deposited to the general fund. Since the legislation appropriates up to \$3.5 million of the proceeds to the Department of Military Affairs in FY 2007, general fund revenue is assumed to increase by the same amount in FY 2007. The legislation is effective on passage and approval.

House Bill 9 – Affected general fund revenue source: “Individual Income Tax”. The legislation provides a property tax rebate up to \$400 to qualified Montana homeowners on their primary residence in which they resided at least seven months during 2006. Homeowners are eligible for the full \$400 if they paid at least \$400 in property taxes in tax years 2004, 2005 and 2006. Homeowners are eligible for the actual amount of property taxes paid in these three years if the total is less than \$400. The fiscal note states that there are 254,458 households qualifying for the full \$400 rebate of which 97 percent will claim the rebate for a cost of \$98,729,704. This amount is statutorily appropriated from the general fund in FY 2008.

Income tax payers who itemized property taxes on their tax year 2006 returns will be required to count the rebate as income on their 2007 income tax returns. It was assumed that 170,990 taxpayers itemized property taxes and that their marginal tax rate is 5.88 percent. A total of \$4,021,685 will be collected in additional income taxes in FY 2008 as a result.

The department of revenue requires 58 temporary employees to administer the rebate program at a cost of \$215,634 and operating costs of \$60,706. Computer costs are \$300,000 and the cost of developing, printing and mailing the rebate checks is \$446,473. For the 2009 biennium, \$1,028,863 general fund is appropriated in HB 9 for these administrative costs.

HB 9 also contains a contingent income tax credit for the 95 mill property taxes paid on the first \$20,000 in market value of a taxpayer's principal residence in which the taxpayer has resided at least seven months during the tax year. The income tax credit is refundable. The amount of the credit for any given tax year is calculated as follows: \$20,000 in residential market value times (1 – homestead exemption) times the class 4 tax rate times 0.095 (the 95 mills) times the relief multiple. For tax year 2007, the calculation is: $\$20,000 \times (1 - 0.332) \times .0307 \times .095 = \38.96 per household if the relief multiple is 1. In HB 9, the relief multiple is set at zero for all years in the future except tax year 2007. In the future, the relief multiple will be reviewed by the Revenue and Transportation Interim Committee before each session. This committee will make a recommendation to the legislature regarding what the relief multiple should be set at for the upcoming biennium.

For tax year 2007, the relief multiple is contingent on the actual unaudited general fund revenue received during FY 2007. If the revenue exceeds \$1,802.0 million, for each \$1.0 million greater than \$1,802.000 million, the relief multiple will increase by 0.1, but only for tax year 2007. The HJ 2 revenue estimate for FY 2007 is \$1,762.355 million and revenue changes enacted in the 2007 session and the May 2007 special session for FY 2007 are \$6.302 million for a total of \$1,768.657 million or \$33.34 million less than the threshold of \$1,802.000 million. The legislation is effective on passage and approval.

Senate Bill 2 – Affected state special revenue source: “Common School Interest and Income”. Although the legislation does not change the amount of revenue deposited to the guarantee account, it does temporarily change the use of the money in the account. Once the loan authorized in SB 495 (2001 session) has been repaid (estimated to be in FY 2008), all net mineral royalties from common school trust lands deposited to the guarantee account are transferred to a school facility improvement state special revenue account. However, once net mineral royalties sold under SB 495 total \$138.9 million, the mineral royalties will once again become part of the common school trust corpus and will no longer be deposited to the guarantee account or transferred to the school facility improvement account. It is anticipated that the \$138.9 million amount will be reached in FY 2010. Between FY 2008 and 2010, approximately \$52.4 million will be transferred from the guarantee account to the school facility improvement account. Money in the account must be used to implement the recommendations of the school facility condition and needs assessment and energy audit conducted under SB 1 (December 2005 special session) for: 1) major deferred maintenance; 2) improving energy efficiency in school facilities; and 3) critical infrastructure in school districts.



APPROPRIATIONS SUMMARY

INTRODUCTION

This section summarizes the major legislative appropriations for ongoing costs of operating state government in HB 2, as well as HB 13 (the pay plan bill), and HBs 63 and 131, which increased employer contributions to certain retirement systems. In the 2009 biennium, total general fund appropriated through HB 2 and HBs 13, 63, and 131 is \$3.3 billion, while total funds are \$8.0 billion. These totals represent 89 percent of general fund and almost 89 percent of total funds appropriated by the 2007 Legislature. The legislature also appropriates funds through statutory appropriations and other legislation. For a discussion of statutory appropriations see page 122 of this volume. Other appropriations legislation is discussed on page 106 of this volume.

APPROPRIATIONS HIGHLIGHTS

The legislature provided total general fund of \$3.3 billion and total funds of \$8.0 billion for the operations of state government in the 2009 biennium. Figure 13 shows the allocation of general fund by program area of government. Education, corrections, and human services consume 86.4 percent of this total, compared to 88.2 percent in the 2007 biennium.

Figure 13

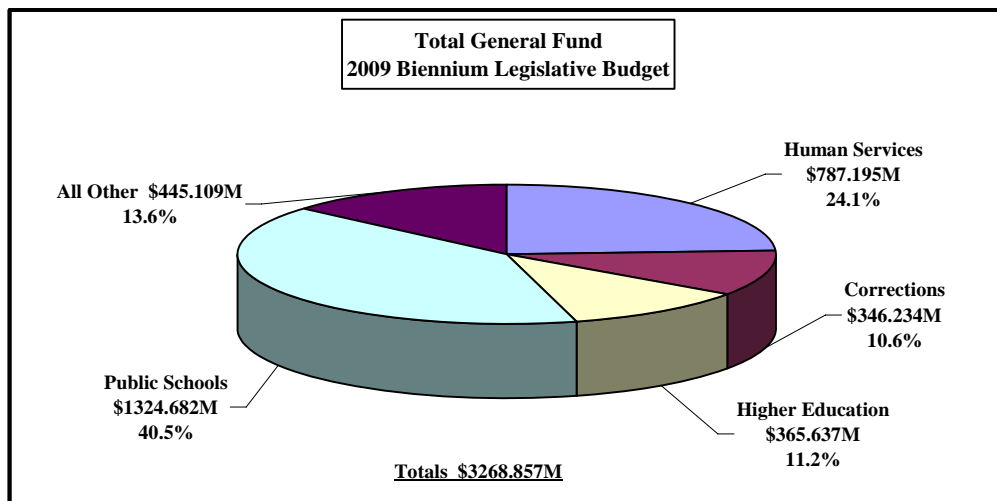
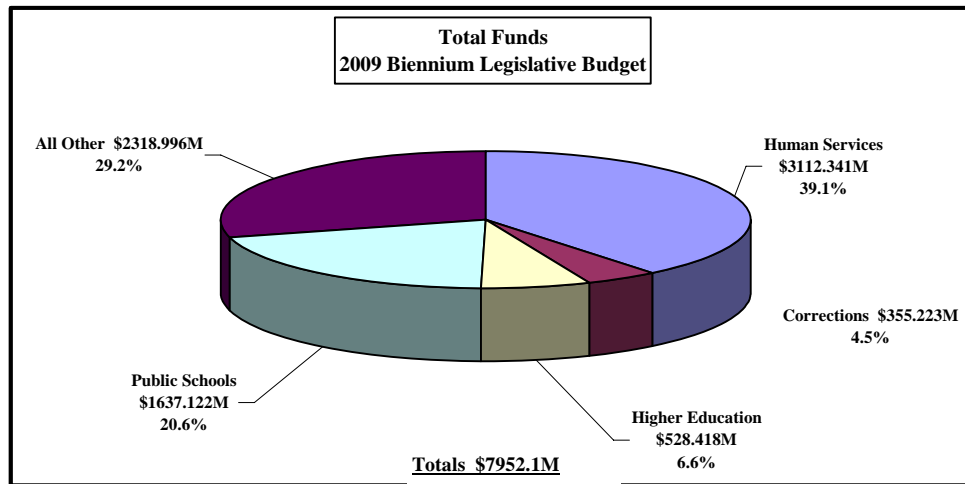


Figure 14 shows the allocation by program area of total funds. "All Other" includes the Department of Transportation. Because of the significant contribution of federal funds and use of non-general fund in transportation and human services, those two functions consume almost 53 percent of the total.

Figure 14



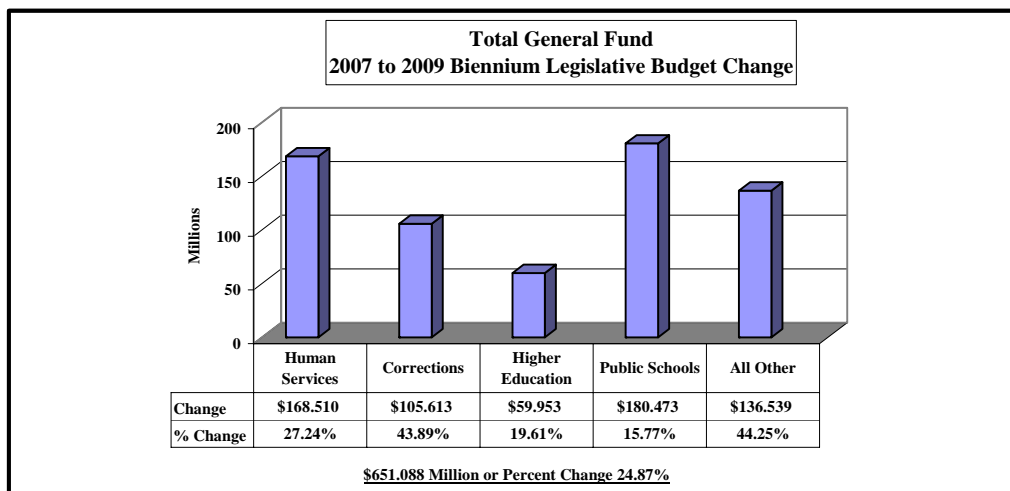
INCREASES OVER THE 2007 BIENNIUM

The 2009 biennium total in HB 2 and HBs 13, 63, and 131 are increases in general fund of \$651.1 million and in total funds of \$1,086.2 million over the 2007 biennium level. The following summary highlights the factors in those increases.

General Fund Increases

Figure 15 shows the allocation, by program area, of the increase in general fund. As shown, each area of state government received significant increases, with the largest increases occurring in human services, K-12 education, and other. A more detailed explanation of the increases occurs under the heading "Appropriations by Program Area" on page 68.

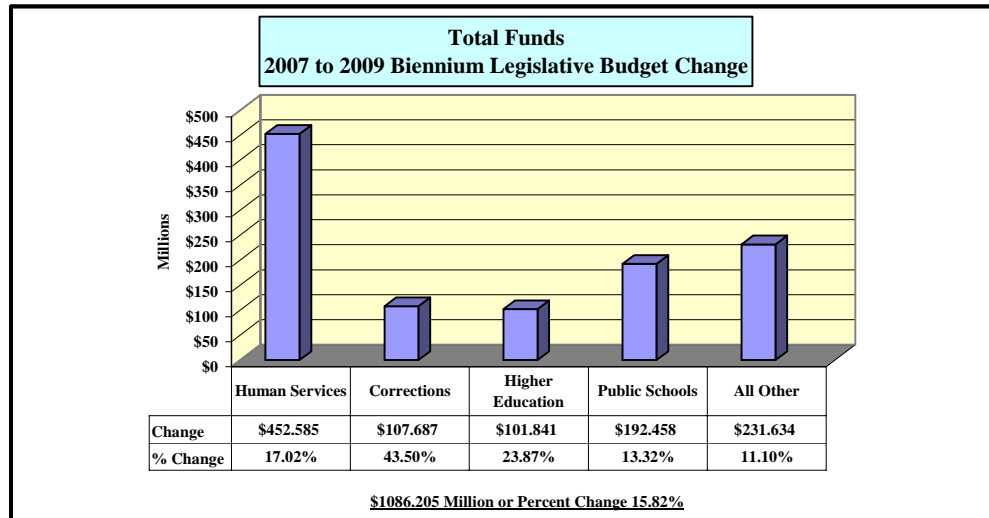
Figure 15



Total Funds Increase

Figure 16 shows the allocation, by program area, of the increase in total funds. As shown, increases in total funds are dominated by human services. Increases are further discussed on page 70.

Figure 16



LEGISLATIVE PRIORITIES

General Priorities

As reflected in its approved budget, the legislature had a number of priorities for state government in the 2007 biennium. The following narrative discusses some of the major priorities by program area.

Human Services

- Maintain existing services to all currently eligible persons, including replacement of federal funds due to a reduction in the federal Medicaid participation rate, and replacement of other anticipated federal reductions/losses
- Increase rates paid to human services providers and direct care workers, in part to provide health care
- Increase addiction services and services for the mentally ill and aged
- Expand tobacco cessation and prevention activities
- Expand children's health insurance and eligibility for the medically needy
- Maintain payments to TANF recipients

K-12 Education

- Annualize all changes adopted during the 2005 special session
- Adopt full-time kindergarten
- Provide local property tax relief and assistance for facilities costs
- Utilize all anticipated federal funds

Higher Education

- Enhance access through:
 - Measures to cap tuition, including provision of greater general fund support for operating costs and increased community college support
 - Provision of additional support to Tribal colleges for non-beneficiary students
- Provide staffing and equipment to enhance other programs and services, including transferability of credits, high demand areas, and distance learning

Corrections

- Provide services and/or facilities for all anticipated population increases, including additional probation and parole officers
- Increase payments to current providers

Other Government

- Utilize all anticipated federal funds, including highway construction funds
- Expand programs for economic development
- Increase compliance by and convenience of taxpayers
- Provide for a state employee pay plan
- Provide for all statewide present law adjustments, including all salary adjustments made to convert positions to the broadband pay plan, partially offset by vacancy savings on most positions

Legislative Priorities – Comparison to the 2006 Base

The legislature generally examines the budget compared to the adjusted FY 2006 base, rather than to the 2007 biennium. Adjustments made to the budget are also made to this base. The following highlights the major changes in general fund from the doubled FY 2006 base made by the legislature, by type of activity.

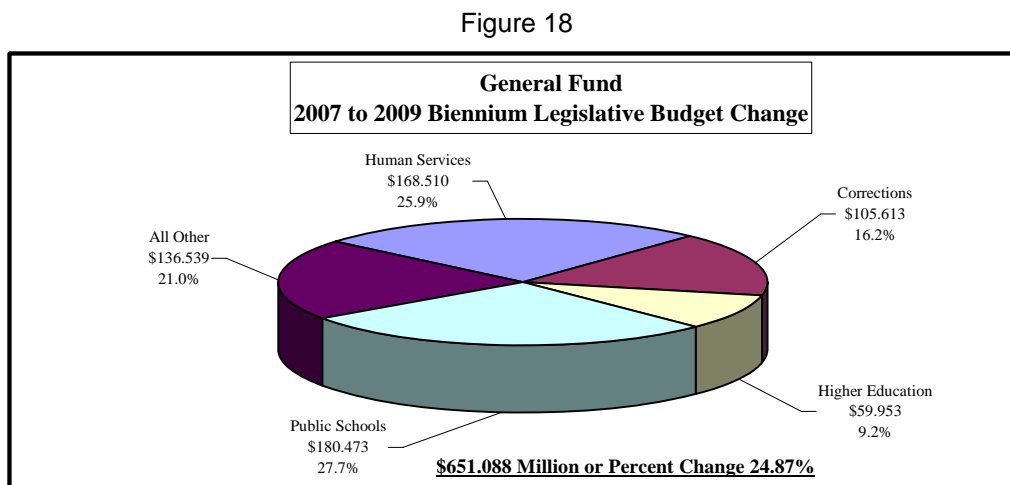
While there are a number of changes over the entirety of state government, over half of the increase in general fund is due to three major factors:

1. Present law and new proposals in K-12 education, including maintenance of all 2005 special session action, full-time kindergarten, and tax relief, among a number of other actions;
2. Statewide present law adjustments; and
3. The state employee pay plan.

Figure 17
Major Factors - HB 2, HB 13, HB 63, and HB 131 Increases From the Doubled 2006 Base
General Fund 2009 Biennium (Millions)

Activity	--- General Fund ---		
	Amount	Percent of Total	Cumulative Percent
Doubled 2006 Base	\$2,533.33		
<u>Major Adjustments - \$735.5 million</u>			
K-12 Total New Proposals	142.80	19.4%	19.4%
K-12 Major Present Law Adjustments	112.70	15.3%	34.7%
Statewide Present Law Adjustments	58.33	7.9%	42.7%
Pay Plan	55.53	7.5%	50.2%
Corrections Populations - Annualize Costs/New Beds/FTE/Treat	51.87	7.1%	57.3%
Caseload Adjustments - DPHHS	35.90	4.9%	62.1%
DPHHS - FMAP Replacement	28.13	3.8%	66.0%
Change in Federal Funds Availability	25.68	3.5%	69.5%
New Mental Health/Addiction Expansions	25.23	3.4%	72.9%
Tax Collection Related	24.20	3.3%	76.2%
Higher Ed Increase in Present Law General Fund Contribution	23.28	3.2%	79.4%
Provider Rate Increases - DPHHS/Corrections	17.18	2.3%	81.7%
Economic Development	13.77	1.9%	83.6%
Miscellaneous Major Additions - DPHHS	13.71	1.9%	85.4%
Protective Services/Medical/Welfare/Seniors - DPHHS	12.02	1.6%	87.1%
Other Higher Education Initiatives	10.17	1.4%	88.4%
Major Environmental/Remediation	8.28	1.1%	89.6%
Miscellaneous Other IT - HB 2	7.94	1.1%	90.6%
Higher Ed Student Assistance	6.88	0.9%	91.6%
Office of the Public Defender Caseload/Annualization	6.27	0.9%	92.4%
Litigation - Transportation/Justice	6.00	0.8%	93.2%
Direct Care Worker Wage Inc/Hlth Care for Hlth Care Workers	5.86	0.8%	94.0%
Miscellaneous Other Major Additions	4.97	0.7%	94.7%
Additional Employer Retirement Contributions	2.89	0.4%	95.1%
Exempt Corrections 24/7 staff from vacancy savings	2.81	0.4%	95.5%
All Other	<u>33.13</u>	4.5%	100.0%
Total Increase	<u>\$735.53</u>		
2009 Biennium	<u><u>\$3,268.86</u></u>		

The following figure shows the changes to general fund, by program area, to the doubled FY 2006 base. A further discussion begins on page 68 of this volume.



Legislative Priorities – Summary

The following highlights major appropriations factors in the 2007 biennium.

FTE	
FTE increase by 412.08 in FY 2008 and 385.58 in FY 2009, of which 102.25 each year are to convert contracted services to state employees in the public defender office. All but seven agencies receive an increase, and all but ___ in FY 2008 and ___ in FY 2009 are on-going positions.	
General Fund/Total Funds	
General Fund	General fund increases by \$651.1 million, or 24.9 percent, over the 2007 biennium to \$3.3 billion
Total Funds	Total funds increase by \$1.1 billion, or 15.8 percent, to \$8.0 billion
Major Present Law Adjustments	
Human Services	<ul style="list-style-type: none"> ○ Maintain Medicaid and other services by funding caseload increases and providing state funds to replace reductions in federal participation rates ○ Provide funds to address other known or anticipated federal changes ○ Fund anticipated institutional populations and expenses
K-12 Education	<ul style="list-style-type: none"> ○ Inflationary increases and adjustments for enrollment changes ○ Continue all 2005 special session increases ○ Utilize all anticipated federal funding increases
Higher Ed	<ul style="list-style-type: none"> ○ Fund all anticipated present law changes and enrollment projections
Corrections	<ul style="list-style-type: none"> ○ Address rising populations through increases in private contract beds, private pre-release beds, and probation and parole officers ○ Annualize all 2007 biennium initiatives and supplemental increases ○ Replace or provide new IT capabilities ○ Increase provider rates
All Other Gov't	<ul style="list-style-type: none"> ○ Increase tax compliance and collections ○ Maintain solvency of state highway fund while maximizing federal funds ○ Maintain and expand various economic development programs ○ Fund anticipated costs of the new public defender system
All Agencies	<ul style="list-style-type: none"> ○ Fund all statewide present law adjustments, including personal services adjustments made during the interim related to the broadband pay plan ○ Generally replace any reductions in federal funds while maximizing other federal funds receipt

Major New Initiatives	
Human Services	<ul style="list-style-type: none"> Community services for the mentally ill Provider rate increases and rate rebasing Increased wages and health care for direct care workers Expansion of eligibility
K-12 Education	<ul style="list-style-type: none"> Full time kindergarten Property tax relief, and assistance for facilities costs Per educator and middle school entitlement payments Additional curriculum specialists
Higher Ed	<ul style="list-style-type: none"> Increased general fund support for present law increases Enhanced access through transferability, distance learning, student assistance Increased support for community colleges, experiment stations, and non-beneficiary tribal college students
Corrections	<ul style="list-style-type: none"> Interoperability communications
All Other Gov't	<ul style="list-style-type: none"> Various tax compliance measures Environmental remediation and wildlife grants Sex offender sentencing and treatment Access to the legal system
All Agencies	<ul style="list-style-type: none"> State employee pay plan
Fund Source	
General fund would increase as a percent of the total budget, reversing a general trend of higher federal participation for all but one of the last several biennia.	
Functional Share of the Budget	
All areas of the budget show large increases over the 2007 biennium. "All Other" would increase as a share due to a large number of additions over a number of agencies. Despite the large increase, the share of the budget for K-12 decreases.	

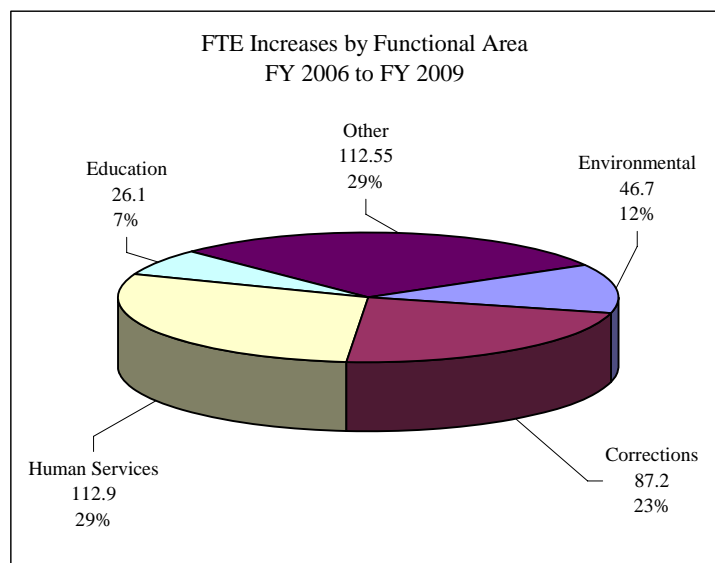
FTE

FTE increase by 385.58, or 3.3 percent, in FY 2009 compared to the FY 2007 level funded by the 2005 Legislature. Figure 19 shows the allocation of funding for the additional FTE by functional area.

As shown in the table, the increases are widespread across agencies. The major causes of the increases are the following:

- Largest net increase in FTE
 - Department of Public Health and Human Services – The increase is due primarily to two factors: 1) the maintenance of staff added during the interim due to population issues at Montana State Hospital; and 2) provision of additional field case workers (social workers)
 - Department of Revenue – The legislature added FTE for enhanced tax compliance, liquor system reform, workload, property reappraisal, and collection of out-of-state debt. It is anticipated that the department will also hire a number of modified FTE for other initiatives.

Figure 19



- Department of Corrections – The legislature added 36 additional probation and parole officers in FY 2009, IT staff and school to work functions at the juvenile facilities, and staff to take over inmate transportation from a contracted firm
- Without the impact of the movement of county attorney positions to a statutory appropriation, the Department of Justice would increase by 25.50 FTE for additional legal staff, investigators in the Gambling Control Division, highway patrol dispatchers, and miscellaneous other positions, including scientists at the forensics laboratory.
- Largest percentage increase in FTE
 - Department of Commerce – The legislature expanded several economic development programs begun or maintained by the 2005 Legislature
 - Office of Public Instruction – FTE were added for curriculum specialists and continuance of data management, and due to increased federal grants

A more detailed discussion is found in “State Employees” beginning on page 96 of this volume.

SUMMARY TABLE

The following figure compares the 2009 biennium, by fund type, general fund and total funds, to the 2007 biennium. Following this summary are discussions of major action by fund type and program area.

Figure 20 Biennium to Biennium Comparison HB 2, HB 13, HB 63, HB 131 2007 Biennium							
Component	2007 Biennium	2009 Biennium	2009 Increase Over 2007	Percent Change	Percent of Change	2007 Percent of Total	2009 Percent of Total
General Fund	\$2,617,768,680	\$3,268,857,492	\$651,088,812	24.9%	59.9%	38.1%	41.1%
State Special Revenue	1,097,341,004	1,240,776,410	143,435,406	13.1%	13.2%	16.0%	15.6%
Federal Special Revenue	3,123,266,709	3,414,685,913	291,419,204	9.3%	26.8%	45.5%	42.9%
Other Revenue	27,519,267	27,780,236	260,969	0.9%	0.0%	0.4%	0.3%
Total	\$6,865,895,660	\$7,952,100,051	\$1,086,204,391				
<u>General Fund</u>							
K-12 Education	\$1,144,208,181	\$1,324,681,609	\$180,473,428	15.8%	27.7%	43.7%	40.5%
Higher Education	305,684,403	365,637,359	59,952,956	19.6%	9.2%	11.7%	11.2%
Corrections	240,621,022	346,234,174	105,613,152	43.9%	16.2%	9.2%	10.6%
Public Health	618,684,824	787,195,202	168,510,378	27.2%	25.9%	23.6%	24.1%
All Other	308,570,250	445,109,148	136,538,898	44.2%	21.0%	11.8%	13.6%
Total	\$2,617,768,680	\$3,268,857,492	\$651,088,812	24.9%			
<u>Total Funds</u>							
K-12 Education	\$1,444,663,923	\$1,637,121,549	\$192,457,626	13.3%	17.7%	21.0%	20.6%
Higher Education	426,577,125	528,418,158	101,841,033	23.9%	9.4%	6.2%	6.6%
Corrections	247,536,048	355,222,973	107,686,925	43.5%	9.9%	3.6%	4.5%
Public Health	2,659,756,179	3,112,341,348	452,585,169	17.0%	41.7%	38.7%	39.1%
All Other	2,087,362,385	2,318,996,023	231,633,638	11.1%	21.3%	30.4%	29.2%
Total	\$6,865,895,660	\$7,952,100,051	\$1,086,204,391	0.1582029			

APPROPRIATIONS BY PROGRAM AREA

While certain areas dominate the total changes in appropriations due to their relative size, the legislature provided increases in funding across state government. The following highlights changes in those major program areas.

**Major Policy Highlights by Program Area
2007 Biennium**

- **K-12 education** increases \$180.5 million general fund and \$192.5 million total funds
Major increases include:
 - Continuance and annualization of all 2005 special session action
 - All-day kindergarten
 - Property tax relief
 - Facilities assistance
- **Higher education** increases \$60.0 million general fund, primarily due to funding of all enrollment increases and other maintenance costs increases at a greater percentage of general fund instead of the previous 80 percent, and a number of other initiatives
- **Human services** increase \$168.5 million general fund and \$452.6 million total funds
 - Medicaid caseload and service increases, as well as a reduction in the percent of the total Medicaid costs funded with federal funds and costs to maintain current services in other areas, cause most percent of the general fund increase
 - Services for the mentally ill, replacement of reduced federal funds, family planning and aging services, rates paid to providers of services, including appropriations for direct care workers wage increases, are increased
- **Corrections** is increased to deal with rising populations, including additional probation and parole officers, higher payments to current providers, and funding of most anticipated overtime costs
- **Transportation** is funded to match all anticipated federal funds
 - The highways state special revenue account is structurally balanced
- **Other** policy issues
 - A state employee pay plan was passed to move all executive branch employees to broadbanding, and provide additional funds for insurance and longevity increases and a minimum salary increase of 3.0 with an additional 0.6 percent discretionary
 - The capacity and activities of the Department of Revenue were expanded for increased compliance and taxpayer convenience
 - Various economic development initiatives were expanded

K-12 EDUCATION

The appropriations to the Office of Public Instruction (OPI) for the 2009 biennium exceed adjusted 2007 biennium spending for all funds by \$192.5 million and for the general fund by \$180.5 million. The difference, \$12 million, is due primarily to the increase to both the agency and to K-12 in federal funds.

The increase of \$180.5 million in general fund between biennia contains \$12.1 million for OPI agency and \$168.4 for K-12. The increase in OPI agency is due new appropriations in the 2009 biennium for new curriculum specialists, added money for K-12 education data systems and Indian Ed for All, as well other adjustments for the pay plan, retirement and present law adjustments.

The increase of \$168.4 million for K-12 between the 2009 biennium and the 2007 biennium include: 1) new proposals in the 2009 biennium for full-time kindergarten, property tax relief, saving for school facilities, increases in quality educator payments, and various one-time-only payments (\$139.5 million) 2) adjustments for the new funding components that were created in the December 2005 session and

were first spent in FY 2007 (\$35.6 million), 3) a savings of general fund due to higher expected revenues in the guarantee account (-\$8.3 million), and 4) other small adjustments (\$1.6 million).

This comparison does not adjust for the likely general fund reversion at the end of FY 2007 of approximately \$17.0 million due to higher than expected revenues in the guarantee account which offsets general fund in paying for Base aid to K-12. Also this comparison does not count the \$32 million in one-time-only expenditures in the 2007 biennium. Also not included in these numbers is up to \$30 million expected to be distributed to schools out of excess 2007 general fund revenues for capital purchases and maintenance by school districts. This money, up to \$30 million, will be distributed to districts in FY 2008 to the extent that FY 2007 general fund revenues exceed \$1.762 billion.

HIGHER EDUCATION

The primary driver of the funding levels and legislative action related to the 2009 biennium budget for the Montana University System is the College Affordability Plan (CAP), an agreement between the legislature and the Board of Regents to “cap” resident student tuition rates at their current levels throughout the 2009 biennium, as long as specific state funding targets have been met in the overall state budget. Those funding targets were indeed met as follows:

- HB 2 includes \$25.6 million general fund to support cost increases at the university unit campuses
- HB 13 (pay plan) includes an additional \$21.3 million general fund that will support personal service increases at unit campuses
- HB 63 and HB 131 (state employee pension legislation) together include more than \$2.0 million general fund that will support employee retirement changes in the university system

Therefore, the overall 2009 biennium legislative budget for the Montana University System, including pay plan, increases by \$90.8 million, a 21.0 percent increase over the 2007 biennium budget, including the following:

- General fund increases by \$49.1 million, a 15.6 percent increase over the 2007 biennium budget
- Federal funding increases by \$32.4 million, a 35.2 percent increase over the 2007 biennium budget
- State special revenue funding increases by \$9.1 million, a 31.4 percent increase over the 2007 biennium budget

HUMAN SERVICES

The 2009 biennium appropriation for DPHHS is \$441.6 million total funds, including \$157.5 million general fund, higher than the 2007 biennium, which represents a 16.5 percent increase. Most of the change is in appropriations for direct services to individuals - \$364.3 million or 82.5 percent of the total difference, and most of the increase in services appropriations funds Medicaid increases - \$330.0 million over the biennium. Service utilization growth, provider rate and direct care worker wage increases, as well as expansions in eligibility drive the Medicaid changes. Other major changes are:

- Children's Health Insurance Program (CHIP) eligibility expansion from 150 percent of the federal poverty level to 175 percent and funds for state assumption of CHIP administration - \$19.4 million
- Community mental health services - \$17.5 million
- 2009 biennium pay plan - \$17.1 million

CORRECTIONS

2009 biennium funding for the Department of Corrections is \$107.7 million greater than 2007 biennium funding. The bulk of this increase, \$105.6 million, occurs in the general fund. If the supplemental appropriation of \$28.2 million provided by the legislature is included in the 2007 biennium funding, the increase decreases from \$105.6 million to \$77.4 million general fund. Increases in funding for the Department of Corrections are primarily related to annualization of programs implemented in the 2007 biennium and an anticipated increase in the average daily population of slightly more than 6.0 percent a year, provision of provider rate increases, and exemption of some staff from 4 percent vacancy savings requirements. Additionally, the implementation of provisions included in SB 547 related to sexual offenders is anticipated to increase costs by \$1.9 million in the 2009 biennium. This increase in costs will be compounded in future years because the department anticipates 32 additional offenders will enter the system each year due in part to the mandatory minimum 25 year sentence provided under certain circumstances.

TRANSPORTATION

The 2009 biennium budget for the Department of Transportation is \$16.1 million lower. Two counteracting factors contribute to the difference: 1) state special revenue is reduced through reductions in wholly state funded construction projects and unspecified maintenance reductions; and 2) federal funds are increased to reflect higher federal aid reauthorization, and significantly higher funding for transit grants and projects.

ALL OTHER AGENCIES

All other agencies increase by \$136.5 million, or an average of 44.2 percent from the 2007 biennium. All agencies, with the exception of the Judiciary (due to transfer of the public defender function to a new agency – without this factor that agency would have increased by 24.4 percent), show large percentage increases. The state employee pay plan adds funding to all agencies, as do general increases in personal services, fixed costs, and inflationary adjustments. Other major increases include:

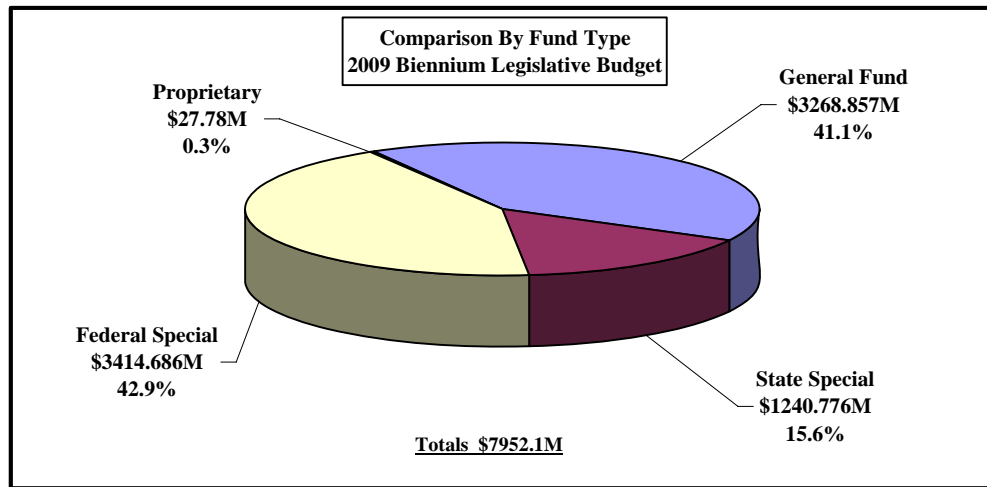
- Additional tax compliance and infrastructure in the Department of Revenue
- Expansion of various 2007 biennium economic development initiatives such as new worker training
- Environmental remediation and grants
- Funding to pursue litigation regarding captive shippers and water access

APPROPRIATIONS BY FUND TYPE

This section compares appropriations made by the legislature by fund type: 1) general fund; 2) state special revenue; and 3) federal funds.

Figure 21 shows a breakdown of HB 2 and HBs, 63, and 131, by source of funding. As shown, federal funds constitute the largest share of total funding. However, in the last two biennia general fund has assumed a greater share of the budget, reversing a long-term trend.

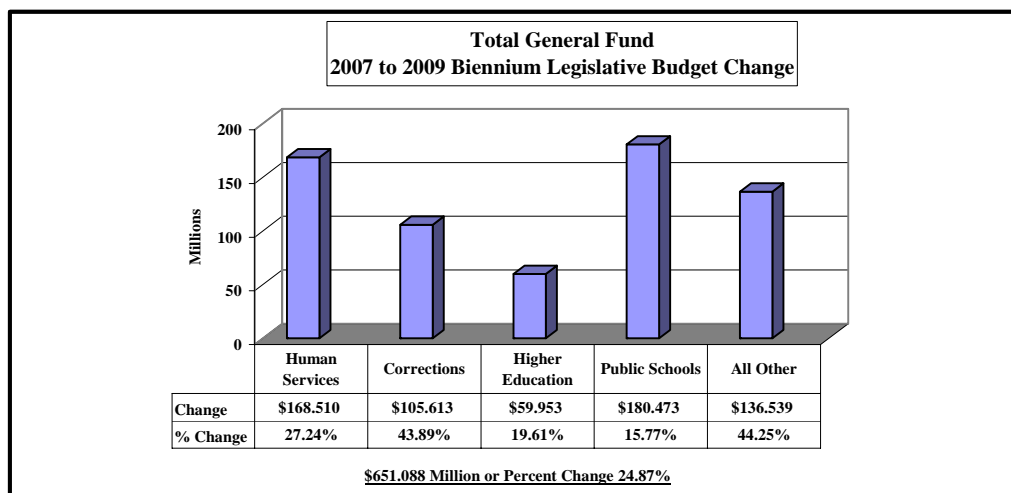
Figure 21



GENERAL FUND

General fund increases by \$651.1 million, or 24.9 percent. This funding source shows the highest dollar and percentage growth over the previous biennium. The following chart shows the allocation of the additional funds by area of government.

Figure 22



General fund increases are widespread across state government, with most agencies receiving a significant increase. The major increases in general fund are due to the following:

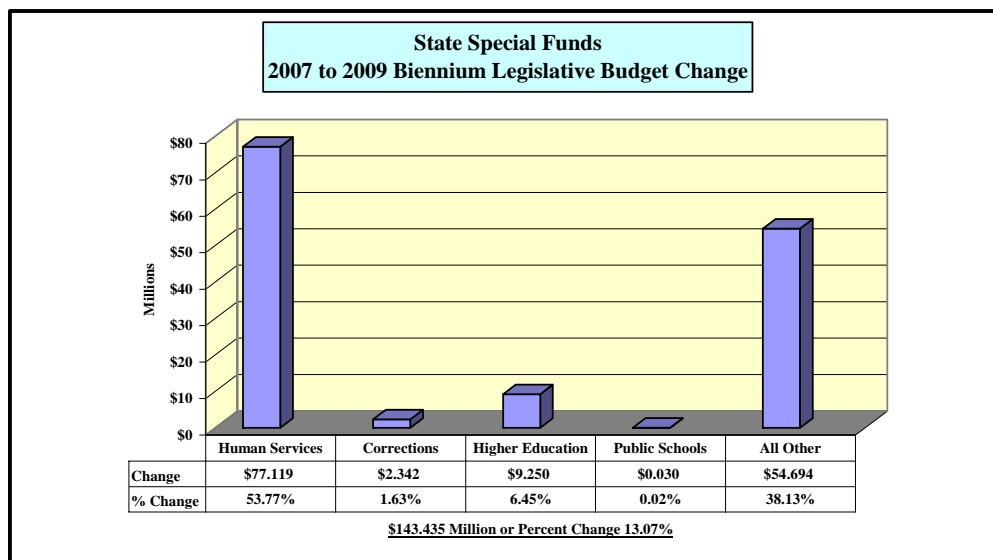
- K-12 Education – Continuance of present law services, and a number of new initiatives including property tax relief, full-time kindergarten, facilities assistance, and numerous others - \$180.5 million
- Higher Education – Increased general fund contribution to present law adjustments and a number of other initiatives, including increased student assistance, community college and tribal college non-beneficiary student support, and distance learning and transferability of credits - \$60.0 million

- Human Services – Maintenance of services to all current recipients and some expansions, replacement of all reduced federal funds, including the Medicaid matching rate, expansions of services for the mentally ill and aged, increased provider rates and direct care worker wages, and increased funding for family planning, energy assistance, and addiction treatment - \$168.5 million
- Corrections – Funding of all anticipated increases in population, including additional probation and parole officers – \$105.6 million
- Other Agencies – funding of additional tax compliance and infrastructure in the Department of Revenue, expansion of economic development initiatives begun in the 2007 biennium, various environmental activities, including enhanced remediation, and numerous other initiatives - \$136.5 million
- Statewide present law adjustments to fully fund all personal services, fixed costs, and specific inflation factors – about \$58 million (from the doubled 2006 base)
- The state employee pay plan - \$55.5 million

STATE SPECIAL REVENUE

State special revenue increases by \$143.4 million, or 13.1 percent. Of this total increase, the Department of Public Health and Human Services is over 53 percent. (Figure 23 illustrates).

Figure 23



State special revenue increases \$143.4 million, or 13.1 percent. The Department of Public Health and Human Services (DPHHS) accounts for over half of this increase. Major changes are due to the following:

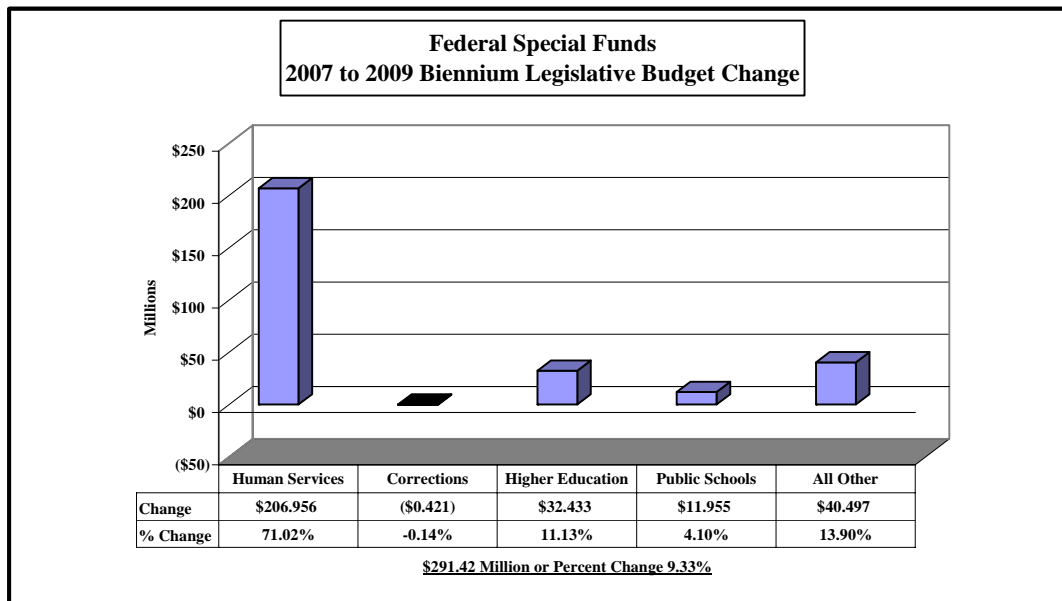
- Within DPHHS:
 - An increase in the use of the health and Medicaid initiative account (tobacco) taxes, primarily for continuance of prior initiatives for and expansion of expanded access to medicines (including Big Sky Rx), provider rate and direct care worker increases, and Medicaid coverage
 - Additional tobacco settlement funds for expanded CHIP coverage and state administration
 - Expanded chronic disease and tobacco prevention and cessation programs

- Continuance of the hospital bed tax, nursing home bed utilization fee, and additional county funds used to match Medicaid funds
- Additional funds for Access Montana, a program to provide assistance to small businesses to provide health insurance
- Base adjustments and debt service for the Motor Vehicle Division, increased highway patrol costs, and numerous other adjustments in the Department of Justice
- An audit correction and additional operating costs in the Department of Fish, Wildlife, and Parks
- Additional six mill levy revenue in higher education
- Increased use of the employment security account in the Department of Labor and Industry
- A number of increases in the Department of Natural Resources and Conservation, including resource indemnity trust funding, water resources, fire assessments, and trust land administration
- A reduction in the Department of Transportation to ensure continued solvency in the highways state special revenue account.

FEDERAL REVENUE

Federal revenue increases by \$291.4 million. The following figure shows the allocation by area of government.

Figure 24



Of this total \$207.0 million, or over 71 percent, is in DPHHS. These increases are primarily related to continuance of services to current Medicaid recipients with some minor expansions, partially offset by a reduction in the share of these costs assumed by the federal government. In addition, food stamp costs increase, as do a number of grants.

In addition, the legislature provided authority for all anticipated federal grants, most notably in K-12 education, environmental and wildlife programs, and transportation; and provided additional authority to the Commissioner of Higher Education for student loan volume.